

# AGENDA

**Meeting:** Wiltshire Pension Fund Committee  
**Place:** Council Chamber - County Hall, Bythesea Road, Trowbridge,  
BA14 8JN  
**Date:** Thursday 25 November 2021  
**Time:** 10.00 am

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## Membership:

### Voting Membership

#### Wiltshire Council Members:

Cllr Richard Britton (Chairman)  
Cllr Gordon King  
Cllr Christopher Newbury  
Cllr Jonathon Seed  
Cllr Elizabeth Threlfall

#### Substitute Members

Cllr Pauline Church  
Cllr Sarah Gibson  
Cllr Gavin Grant  
Cllr Carole King  
Cllr Ian Thorn  
Cllr Roberty Yuill

#### Swindon Borough Council Members

Cllr Steve Heyes  
Cllr Vijay Manro

#### Substitute Members

Vacancy

#### Employer Body Representatives

Tracy Adams  
Claire Anthony

### **Non-voting Membership**

#### Observers

Stuart Dark  
Mike Pankiewicz

## **Covid-19**

To ensure COVID-19 public health guidance is adhered to, a capacity limit for public attendance at this meeting will be in place. **You are requested to contact the officer named on this agenda no later than 5pm on 23 November 2021 if you wish to attend this meeting.**

Places will be allocated on a first come first served basis.

To ensure safety at the meeting, all members of the public are requested to adhere to the following public health arrangements to ensure the safety of themselves and others:

- Do not attend if presenting symptoms of, or have recently tested positive for, COVID-19
- Wear a facemask at all times (unless due to medical exemption)
- Maintain social distancing
- Follow any one-way systems, signage and instruction

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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](#).

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** *(Pages 7 - 18)*

To approve and sign as a true and correct record the Part I (public) minutes of the previous meeting held on 30 September 2021.

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 **Public Participation**

The Council welcomes contributions from members of the public, however, to ensure Covid-19 public health guidance is adhered to, physical attendance at this meeting will be limited. Please contact the officer named on this agenda no later than 5pm on 23 November 2021 if you wish to attend this meeting

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 18 November 2021 in order to be guaranteed of a written response. In order to receive a verbal response questions must be submitted no later than 5pm on 22 November 2021. Please contact the officer named on the front of

this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent.

Details of any questions received will be circulated to Committee members prior to the meeting and made available at the meeting and on the Council's website.

6 **Responsible Investment Update and Progress Report** (Pages 19 - 24) **10.05**

To receive a report from the Head of Pension Fund Investments.

7 **Investment Strategy Statement Review** (Pages 25 - 56) **10.15**

To receive a report from the Head of Pension Fund Investments.

8 **Date of Next Meeting**

The next ordinary meeting of the Committee will be held on 16 December 2021.

9 **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.

10 **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 11 onwards 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.

**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**

11 **Investment Quarterly Progress Report** (Pages 57 - 104) **10.25**

To receive a report from the Head of Pension Fund Investments.

12	<b><u>Partners Group Infrastructure Presentation</u></b>	<b><u>10.30 (no earlier than)</u></b>
13	<b><u>Ninety One Emerging Market Multi-Asset Presentation</u></b>	<b><u>11.45</u></b>

### Wiltshire Pension Fund Committee

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#### MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 30 SEPTEMBER 2021 AT THE COUNCIL CHAMBER, COUNTY HALL, TROWBRIDGE, BA14 8JN.

#### **Present:**

Cllr Richard Britton (Chairman), Cllr Steve Heyes, Cllr Gordon King, Cllr Vijay Manro, Cllr Christopher Newbury, Cllr Elizabeth Threlfall, Mike Pankiewicz, Tracy Adams and Anthony

#### **Also Present:**

Anthony Fletcher and Mark Spilsbury

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#### 32 **Apologies**

Apologies were received from Councillor Jonathon Seed.

#### 33 **Declarations of Interest**

There were no declarations.

#### 34 **Chairman's Announcements**

There were no announcements.

#### 35 **Minutes of the Previous Meetings**

The minutes of the meeting held on 24 June 2021 were presented for consideration. The minutes and recommendations of the Investment Sub-Committee meeting held on 2 September 2021 were also received and considered.

In relation to the minutes of the meeting held on 30 March 2021, an update was received on amendments which had been prepared following deferral of their approval at the last meeting.

After discussion, it was,

#### **Resolved:**

- 1) **To approve and sign the minutes of the meeting held on 24 June 2021 as a true and correct record.**

- 2) To receive the minutes of the Investment Sub-Committee meeting held on 2 September 2021, and approve the recommendations as follows:

**Responsible Investment Update Report**

- i. To use the report as a basis for monitoring the progress that is being made towards implementing responsible investment related issues;
- ii. To note the progress made against the Responsible Investment Plan 2021/22 actions and discuss whether any additional actions are needed at the current time;
- iii. To approve that Pensions for Purpose be invited to deliver a follow-on session on impact investing, at a cost of £1,700 (not included in the budget);
- iv. To approve that Brunel are invited to deliver a training session on the new Paris-aligned benchmark

**Investment Quarterly Progress Report**

- i. To use the investment reports and the update provided by officers and advisers at the meeting as a basis for monitoring the investment performance and implementation of the strategic asset allocation;
- ii. To use the report as a basis to ask questions of Magellan;
- iii. To approve that the Fund transfer the low carbon passive portfolio to the Paris-aligned passive portfolio on its inception in November 2021, in line with the net zero by 2050 ambition set out in the Investment Strategy Statement;
- iv. To approve that the Fund publicise the decision to be an initial investor in the Paris aligned passive portfolio, and the collaboration work done with other Funds to develop this benchmark;
- v. To approve the approach taken towards the property transition, and agree the milestones set before this can proceed

**Protections Assets Review**

- i. To approve that the Fund makes a 5% strategic long-term allocation to renewable infrastructure and a 5% strategic long-term allocation to impact affordable housing;
- ii. To approve that the strategic long-term allocation to secured income is reduced to 8% and the strategic long-term allocation to gilts is reduced to 7%;
- iii. To approve that the strategic interim allocation to bank loans is increased to 10.8%, and the strategic interim allocation to gilts is reduced to 21.7%, and that this is implemented by transferring £100m from the gilts portfolio to the bank loans portfolio;
- iv. To approve that officers begin work, in consultation with advisers, to bring a recommendation back to the Committee on how the new strategic allocations should be implemented.

- 3) To approve and sign the minutes of the meeting held on 30 March 2021 as a true and correct record, following circulation of textual changes to the Committee.



*Councillor Christopher Newbury requested his vote in abstention to resolution 2 be recorded.*

36 **Review of Actions Arising from Previous Meeting**

The Committee considered a report on actions arising from previous meetings. It noted that all actions were either completed or scheduled for future action.

It was then,

**Resolved:**

**To note the action log.**

37 **Review of the Minutes of the Local Pension Board**

The Committee considered the minutes and recommendations of the Local Pension Board meeting held on 24 August 2021. It noted the recommendations particularly in relation to Fund Cyber Security and the Risk Register.

It was then,

**Resolved:**

**To note the minutes of the Local Pension Board meeting and the recommendations as set out in the report.**

38 **Public Participation**

There were no questions or statements received.

39 **Committee Structure and Meeting Arrangements**

The Chairman introduced a report proposing that the Committee stand down its Investment Sub-Committee, and instead arrange additional meetings of the Committee to consider investment items. It was proposed this would avoid duplication, delay and ensure all Committee members were involved in decision making.

The Committee discussed the proposals, noting that as it had been non-decision-making meetings of the Investment Sub-Committee had taken place online, while meetings of the Committee were legally required to have Members attend in person. It was considered whether training or other items could possibly take place online in order to keep agendas as manageable in length as possible.

Some Members did not consider there was a need to alter the arrangements of the Committee or investment Sub-Committee, or that any issues had arisen as a result of the arrangements. In response to queries it was confirmed that any constitutional changes to remove formal delegations to the Investment Sub-

Committee would need to be approved by Full Council, and that delegations to Fund Officers remained in place. There were also comments on being flexible in what each meeting of the Committee focused upon, and the need for all Members to engage with training to properly consider all Investment and other matters.

It was then,

**Resolved:**

- 1) **That the Investment Sub-Committee should be stood down with immediate effect, to be replaced with an equal number of additional meetings of the Wiltshire Pension Fund Committee, leaving eight full Committee meetings per year in total.**
- 2) **That the Wiltshire Pension Fund Committee meets with a separately-focussed agenda on alternate dates: An investment agenda and a non-investment administration agenda. Exceptions for urgent items will still be able to apply where it is necessary to break this cycle.**
- 3) **To request the Standards Committee progress recommended changes to the constitution as appropriate.**
- 4) **To delegate to the Chairman and officers to explore and agree any desirable changes with MJ Hudson which are possible under the existing contract (and to make alterations when re-tendering).**

40 **Headlines and Monitoring (HAM)**

A report was received to update the Committee on key issues and developments across a range reports, including in relation to the Risk Register, Training, Scheme, Regulatory and Legal Updates, budget monitoring, and others as detailed in the agenda.

Points discussed including the annual benefits statement, that the administration key performance indicator update was up to the end of June 2021 but that a similar pattern was expected for the next quarter.

It was then,

**Resolved:**

- 1) **To use the information in the report as a basis for monitoring the Fund's core activities**
- 2) **To use the report as a basis to discuss training requirements, discuss whether any additional training needs to be arranged, and share feedback from any recent training events attended**
- c) **To approve the changes to the Risk Register and accept the recommendations for changes/actions made submitted by the Board**

LPB Recommendation

To note the updated Risk Register and recommend the changes/actions proposed at paragraphs 5-9 of the report to the Committee.

5. During the last quarter no “new risks” were identified.
6. The evidence-based review of the register identified the following risks had changed or need to be re-categorised;
  - *PEN058: Service disruption is created during the implementation of the Council's Evolve Programme on the Fund (From Green to Amber) A potential lack of co-ordination between the Evolve & Altair payroll project management timetables could increase the risk of success of this migration. Regular communication between project managers should be established.*
  - *PEN052: COVID-19: (From Red to Amber) An infectious global virus which WHO has classed as a pandemic. The impact of COVID-19 is being largely managed and there are signs that the nation is returning to normal. Recommend that this risk be moved to ongoing.*
  - *PEN055: Failure by Brunel Pension Partnership to properly address shareholder concerns via the governance review: (From Red to Amber) The governance arrangements by which BPP will operate have been set out in a terms of reference and Wiltshire along with all the shareholders are satisfied with the breadth and depth of the resulting changes. Recent communications suggest progress is beginning to be made. Recommend that this risk be monitored and moved to ongoing.*
  - *PEN024: The implementation of Brexit causes investment volatility or unexpected legislative changes: (From Amber to Green) Any impact which would have been caused by Brexit has now been built into investment valuations. Recommend that this risk be moved to dormant.*
  - *PEN012: Over-reliance on key officers: (From Amber to Green) A full complement of staff are now appointed to roles enabling suitable cover. The majority of appointments are experienced and have served in their positions for quite some time. Recommend that this risk be moved to dormant.*
  - *PEN011: Lack of expertise of Pension Fund Officers and Service Director, Finance: (From Amber to Green) Senior Officer appointments are experienced and have served in their positions for quite some time. Recommend that this risk be moved to dormant.*
  - *PEN009: Failure to comply with Data Protection Legislation (GDPR & Data Protection Act 2018): (From Amber to Green) SWAP audit actions concerning GDPR were minor in nature & have now been completed.*
  - *PEN026: A lack of effectiveness of Committee meetings due to the impact of MiFID II Regulations: (From Green to Amber) Recent changes to the Committee and the consequential loss of knowledge have increased the risk of the Committee's effectiveness. Recommend that this risk be moved to ongoing.*
7. Risks remaining “red”, high risk:

- *PEN022: Rectification of records with GMP issues – Time-consuming, costly & may causes reputational damage: (From Red) Potentially incorrect liabilities being paid by the Fund as a result of GMP and other pension component values missing, incorrectly recorded or incorrectly valued. Consequently, progress with the Pensioner Payroll Database reconciliation project may impact on the Fund's liabilities and its reputation.*
  - *PEN041: The Fund's inability to implement a strategy to ensure Climate Change considerations are integral to its investment strategy: (Red) Work on developing the Fund's policies, disclosures and strategy is ongoing. Additional resource will be required, likely to be by way of specialist consultancy support.*
  - *PEN042: Significant retrospective legislation changes related to the McCloud case: (Red) Following the release of the Government's consultation document in July 2020 analysis of the Scheme's members who may be affected was undertaken. Indications suggest that potentially c27k members may be affected, as well as increasing the work on several supplementary administrative tasks. The impact actuarially speaking is likely to be minimal. Members requested that it be kept as a red risk until the administrative impact is completely clear.*
  - *PEN048: The transition of the pooling of LGPS assets with BPP fails to deliver the projected savings: (Red) Progress and updates should continue to be regularly reported to Committee. The Board recommended the introduction of a monitoring & reporting timetable & an independent audit should be conducted in 2021.*
8. *It is recommended that three risks which are currently in Dormant/Closed be deleted on the basis that they are no longer relevant. These are;*
- *PEN046: The transition of assets to the Brunel global high alpha equities portfolio does not go according to plan resulting in investment losses: No longer relevant (Green).*
  - *PEN020: The transition to pooling of LGPS assets with BPP proves ineffective causing higher costs, poorer returns and/or weak controls: (Red) However it has been replaced by PEN048.*
  - *PEN014: Failure to provide the service in accordance with sound equality principles: (Green) Risk description is vague and the basis for its reason has been replaced by more specific risks such as PEN055: The Goodwin Case & PEN055: The Accessibility Regulations.*
9. *General comment – It is recommended that risk PEN058: Service disruption is created during the implementation of the Council's Evolve Programme on the Fund (Green) be split into two risks. The first risk managing the migration of the Fund's pension payroll and the second risk managing the remaining Evolve Programme activities affecting the Fund. This second risk be categorised as Green.*

#### 41 **Training Update**

An update on training was provided by the Fund Governance and Performance Manager. A four-year strategy had been developed to be implemented following

the May 2021 local elections. Knowledge assessments completed by the Committee would be used to develop a specific list of training needs and to identify training packages to address those needs.

Other issues raised included developing a document library for use by Committee Members, developing technical expertise, and the need to deliver proportionate training taking account of necessary skills and the availability of Members.

The Committee thanked officers for the update on training.

42 **Additional Voluntary Contribution (AVC) Review**

A verbal update was received in respect of a review of Additional Voluntary Contributions, plans set up for scheme members to make further contributions to their pensions. Due to the Fund's provider (Prudential) experiencing some IT system issues there had been some subsequent service issues in late 2020, but these were being addressed and the service issues should be resolved for 2022. The Committee was informed scheme members had not been financially dis-advantaged by administrative delays.

The Committee thanked officers for the update.

43 **Pension Payroll Database Reconciliation**

The Committee received a further update on the ongoing reconciliation progression between the pension administration system and the pensions payroll system, as well as the project to move to an integrated pensioner payroll system.

It was stated that each case that remained was taking a long time to resolve, with peer reviewing, as officers wanted to ensure sufficient thoroughness and controls existed to reach the correct conclusions. Work was being undertaken to align with the council's Evolve programme for a new payroll system. Details were sought on remaining issues with the reconciliation, how dependent the project was on wider council projects and that further updates would be provided.

At the conclusion of discussion, it was,

**Resolved:**

**To note the update.**

44 **Officer Staffing**

A report was received on the current staffing structure for the Fund, requesting that the budget set for 2021-2022 to appoint three staff for 12 months be made permanent. It was stated this would not affect the current years' budget.

The Committee discussed the report, seeking confirmation that they could approve the proposal within the council budget, with the Fund having exceptions on wider recruitment pauses. The risk register was discussed in relation to key officers, and details were sought on staffing costs.

At the end of discussion, it was then,

**Resolved:**

**That budget approval be granted to allow the three current temporary roles in the staffing structure to be made permanent.**

*A break was taken from 1120-1125*

45 **Data Improvement Strategy and Plan**

A report was received providing an update to the Data Improvement Strategy and Plan, which was originally approved in March 2019, and to present proposed changes to the strategy and plan. The Pension Regulator recommends that all funds should review their data quality at least annually.

The Committee discussed the update. In response to queries it was confirmed that the pension regulator was primarily concerned with integrity and accuracy of data not access or security, ensuring compliance with appropriate data protection legislation. Details were sought on when the Fund last participated in the National Fraud Initiative. It was also confirmed that a strategy for long term storage of data would be reviewed in 2022/23.

At the conclusion of discussion, it was,

**Resolved:**

**To approve the Data Improvement Strategy and Plan as detailed in the appendix to the report.**

46 **Responsible Investment Progress Report**

A report was received updating the Committee on Responsible Investment issues, following approval at the last meeting of a Responsible Investment Plan and providing updates on the actions agreed as detailed in the agenda.

Representatives from Mercers then provided a detailed presentation and update on their analysis and proposals relating to setting a pathway to net zero, identifying time periods to meet the targets approved by the Committee at previous meetings to achieve net zero by 2050. This included interim targets for carbon reduction and analysis of emissions for specific companies.

The Committee discussed the presentation. Some Members considered that the targets proposed were more demanding than the Committee had committed to, and whether the financial prospects of the fund were appropriately considered

in the proposals, and whether further information was available on the likely financial impacts of the different target options. Questions were also raised on modelling the financial impacts, with it stated that modelling had been undertaken and would be reviewed at least every three years. The Fund would retain flexibility within its strategy in order to generate the financial returns that it was aiming to generate.

During discussion it was noted that the Committee had considered climate scenario analysis and approved that setting a target of net zero by 2050 would be in the best financial interests of the Fund, and that it was necessary to set interim targets to ensure the agreed objectives were achieved. It was noted that the investment options in relation to low carbon passive benchmarks had developed significantly recently. There was also discussion of Paris agreement aligned benchmarks and how these could be calculated, and of internal legal advice previously raised at Committee.

There was then a proposal that a decision be deferred pending the outcome of the consultation on making TCFD (Task Force on Climate-related Financial Disclosures) mandatory for Local Government Pension Scheme funds, which is shortly anticipated to be launched by the now Department for Levelling Up, Housing and Communities. Following a vote the motion was lost.

The recommendation as set out in the report was then moved and seconded, and it was then,

**Resolved:**

- 1) To use the report as a basis for monitoring the progress that is being made towards implementing responsible investment policy;**
- 2) To note the progress made against the Responsible Investment Plan 2021/22 actions and discuss whether any additional actions are needed at the current time;**
- 3) To approve the Investment Sub-Committee's recommendation that Pensions for Purpose be invited to deliver a follow-on session on impact investing, at a cost of £1,700 (not included in the budget);**

*Councillor Christopher Newbury requested his vote in opposition to the motion due to fiduciary concerns be recorded.*

**47 Responsible Investment Policy Report**

Following the previous item, a report was received setting out a proposed Responsible Investment Policy. This followed approval in June 2021 of a Responsible Investment Plan to include the development of a policy including a climate statement and action plan.

The Policy contained information from the existing Investment Strategy Statement, the Responsible Investment Plan, and some new information,

including some updated investment beliefs, and the interim decarbonisation targets and other findings from the Mercer work discussed in the previous item. Officers explained that following advice from Mercer, the draft appended to the paper would be amended to refer to “well below 2°C”, and that reference to signing up to the UN PRI would be removed as that was not possible at the current time. Officers explained that the Policy was being graphically designed, and that following Committee approval, it would be shortly published on the Fund’s webpage and circulated to Committee members.

It was then,

**Resolved:**

**To approve the Responsible Investment Policy.**

48 **Committee Forward Work Plan**

The Committee received the forward work plan. It was noted that an amended meeting schedule would be arranged following the decision in relation to the committee structure.

It was then,

**Resolved:**

**To approve the Committee Forward Work Programme**

49 **Date of Next Meeting**

The date of the next meeting was confirmed as 25 November 2021.

50 **Urgent Items**

There were no urgent items.

51 **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 Item Numbers 21 - 26 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.**



52 **Minutes of the Previous Meeting**

The Part II minutes of the meeting held on 24 June 2021 were presented for consideration, and it was,

**Resolved:**

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

53 **Investment Sub-Committee and Local Pension Board Minutes**

The Part II minutes of the meeting of the Investment Sub-Committee held on 2 September 2021 and the Local Pension Board meeting held on 24 August 2021 were received, and it was,

**Resolved:**

**To note the minutes and recommendations of the Investment Sub-Committee and Local Pension Board.**

54 **Infrastructure Investment Considerations**

A report was received in relation in infrastructure investment, including potential nuclear energy investment. It was confirmed any potential investment, if recommended, would be made cautiously and financial risks carefully assessed.

It was then,

**Resolved:**

- 1) **To approve that the Fund exclude investing in nuclear projects via the unlisted infrastructure portfolios, unless officers and advisers have been given an opportunity to review the investment specifics, and have the power to opt-out of taking part in the investment if the risks are assessed to be too high;**
- 2) **To approve that officers should continue to work with Brunel with the aim to ensure that Wiltshire is able to review any proposed nuclear investments in the infrastructure portfolio, and have the power to opt out.**

55 **Fund Cyber Security and Business Continuity**

A report was received in relation to Fund Cyber Security. The need for updates from those with appropriate technical expertise was raised, and it was,

**Resolved:**

**To defer consideration of the item to the December meeting of the Committee, to include officers from ICT.**

56 **Key Financial Controls**

A report was received on key financial controls. Details were sought in relation to treasury limits and the approval of the 2021 accounts.

At the conclusion of discussion, it was,

**Resolved:**

- 1) **To increase the limits for holding cash within the 3 liquid funds used to hold cash locally from £6m each to £10m.**
- 2) **To note the issues identified within the report, and to use the information within the report to monitor the progress made to rectify problems and develop improvements.**

57 **Brunel Governance Review Update**

A verbal update was received stating that most previous governance issues with Brunel had been resolved, though officers would continue to challenge as appropriate on any operational issues.

(Duration of meeting: 10.00 am - 1.30 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](mailto:kieran.elliott@wiltshire.gov.uk)

Press enquiries to Communications, direct line ((01225) 713114 or email [communications@wiltshire.gov.uk](mailto:communications@wiltshire.gov.uk)

## WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE  
25 November 2021

### **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 2021/22*

2. Actions from the recent Committee meetings are as follows. Actions which were reported as complete in the last regular update have been removed:

<b>Recommendation</b>	<b>Action</b>
Members agreed...	
That the Fund should aim to sign up to the 2020 Stewardship Code during 2021.	Fund officers have reviewed a gap analysis report prepared by Minerva, which looks at the current Fund publications and highlights the additional reporting which is required by the 2020 Stewardship Code. Officers are preparing a plan and will be reporting against the requirements of the code via a Stewardship Policy and Outcomes report in early 2022.
That officers will further explore commissioning Mercer to advise on a road map for the Fund to achieve net zero by 2050.	Mercer's work is almost complete. The findings from initial stages of the work (i.e., setting interim decarbonisation targets) have formed part of the Fund's Responsible Investment Policy.
To approve the Responsible Investment Plan 2021/22, and the actions and costs noted therein.	Progress against the actions in the Responsible Investment Plan is shown below.
To approve that the Fund's passive equity allocation is implemented via the Brunel Paris-aligned passive portfolio.	The transition took place at the launch of the portfolio on 2 November 2021. The Fund took part in publicity surrounding the launch.
To approve strategic allocations of 5% each to Impact Affordable Housing and Renewable Infrastructure, and to instruct officers to explore options for implementation.	Officers have been working with Mercer and the Brunel pool to explore implementation options. These are discussed in more detail, along with recommendations, elsewhere on this agenda.

Recommendation	Action
Members agreed...	
That a training half-day should be organised, and that Pensions for Purpose should be invited to deliver a workshop on impact investing, and Brunel should be invited to provide training on the Paris-aligned benchmark.	This training has been organised for 29 November.

3. The road map from the Responsible Investment Plan 2021/22 is shown on the following page. Progress against actions for Q2 & Q3 2021 is as follows:

**4. Investments and strategy:**

- The decision on sustainable equities has been made, and the transition was completed in September 2021.
- Proposals for protection assets were considered at the 2 September 2021 Investment Sub-Committee, and approved by full Committee on 30 September 2021. The Fund has now made specific allocations to renewable infrastructure and impact affordable housing, of 5% each. Implementation options are currently being considered.
- The Responsible Investment Policy has been approved and published – more info further later in this report.
- Mercer’s work on a “net zero by 2050” road map has been nearly completed, and is included in a climate statement and action plan as part of the Responsible Investment Policy. This work has included setting interim decarbonisation targets.

**5. Reporting and disclosure:**

- The TCFD reporting has been published online and in the Annual Report 2020/21. This sets out how the Fund manages climate change risk, from the perspective of governance, strategy, risk management and metrics.
- Officers are developing plans for reporting in line with the 2020 Stewardship Code. This requirement will be met by an annual Stewardship Policy and Outcomes Report, which will be published for the first time in early 2022.
- The Fund has signed up to the wider initiatives as set out in the Responsible Investment Plan, and is developing an approach to engaging with these resources.

**6. Training and engagement:**

- A Committee training session on impact investing and affordable housing was held on 8 July 2021. Officers have collected feedback from attendees via an online survey. Feedback was positive – members reported that they found the training very useful, particularly on impact investing, and that both sessions were pitched at the right level.
- One attendee fed back that they felt the Committee would benefit from the follow-on session on impact investing which had been mentioned in the training. This was supported by the Committee at the meeting on 30 September 2021, and the training has been scheduled for 29 November 2021.
- A Committee training session was held on 14 September 2021, for Mercer to represent their climate scenario modelling findings. Feedback was collected via an online survey. Members were very positive about the training, apart from one member who was very negative. Overall, members were happy with the level training was pitched at, and felt that they better understood the Fund’s strategic

direction. Several members felt that regular updates and refreshes of this training would be helpful.

- Brunel held two virtual investor days via Teams (27 September & 4 October) which were attended by several Board and Committee members. These sessions covered a range of topics including high level market overview, investment examples and responsible investment progress.

7. **Responsible Investment Plan 2021/22 progress summary:** The Plan is on track to be achieved – all actions scheduled for Q2 & Q3 2021 have been completed. Work has begun on actions for Q4 2021.

**Responsible Investment Road Map**

**Q2 2021 -**  
**Investments and strategy:** decision on sustainable equities  
**Reporting and disclosure:** TCFD reporting  
**Training and engagement:** Training on impact investing and affordable housing



**Q3 2021 -**  
**Investments and strategy:** proposals for protection assets, develop and publish Responsible Investment Policy, including climate statement and action plan  
**Reporting and disclosure:** Develop plan for Stewardship Code reporting



**Q4 2021 -**  
**Investments and strategy:** begin work to implement proposals for protection assets, begin reviewing potential work on other asset classes with respect to climate change and sustainability  
**Reporting and disclosure:** sign up to wider initiatives  
**Training and engagement:** hold membership webinars and develop the information shared on the Fund's website



**Q1 2022 -**  
**Investments and strategy:** update Investment Strategy Statement  
**Reporting and disclosure:** develop plans for reporting the year's progress in the Annual Report

### Responsible Investment (RI) Policy

8. As mentioned above, the RI Policy has now been approved and published. The policy contains information which was previously contained in the Investment Strategy Statement (ISS), the RI Plan 2021/22, and some other new material, including the recommendations from Mercer's work on setting a pathway to net zero. The RI Policy can be found here on the Fund's website:  
<https://www.wiltshirepensionfund.org.uk/media/7330/Wiltshire-Pension-Fund-Responsible-Investment-Policy-2021/pdf/Wiltshire-Pension-Fund-Responsible-Investment-Policy-2021.pdf?m=637696372542870000>
9. The RI Policy is to be considered as an integral part of the ISS. The ISS has been updated to remove duplicate information which is now included in the RI Policy, and is elsewhere on this agenda for review.

### Training

10. The next training session will be held via Teams on 29 November 2021. This training will include a follow-on session on impact investing with Pensions for Purpose. This session will take the format of an investment beliefs workshop, to review the UN sustainable development goals (SDGs) in more detail, and focus on SDGs which the Fund could incorporate in the investment strategy.
11. There will also be a session with Brunel on the new Paris-aligned benchmarks, which will explain more about how they are constructed, with examples. All members of the Committee and Local Pension Board are strongly encouraged to attend the training.

### Member and Employer Engagement Activity

#### **COP26 Engagement**

12. In the run-up to COP26, the 2021 UN Climate Change Conference, officers developed a campaign to engage with the scheme membership. This involved the following:
  - Producing a one-page factsheet with key facts and figures on how the Fund is responding to climate change risk.
  - Using this factsheet as part of an email campaign to alert the scheme members to what action is being taken.
  - Developing a webpage to contain all the climate information in one place, so members can follow the link through from the one-page factsheet to learn more.
  - Working with Wiltshire comms and our employers, as well as using Mailchimp to send out the campaign.
  - Working with Wiltshire comms externally to ensure that we tie in our work with the Council's carbon reduction team, by putting out a press release and social media posts.
  - Joining in with Brunel's publicity work, specifically around our collaborative work to develop a new Paris-aligned benchmark, and invest £600m in this passive portfolio at its launch.
13. Members can view the factsheet and climate webpage here:  
<https://www.wiltshirepensionfund.org.uk/climate>

14. This was a successful campaign, with just under 14k recipients via Mailchimp, and more members were reached through the comms sent out by employers. On mailchimp alone, 7,268 members read the email, which contained the climate factsheet. The climate webpage received just under 1k visits, almost all of which were new visitors to the website.

### **Environmental Impacts of the Proposals**

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

### **Safeguarding Considerations/Public Health Implications/Equalities Impact**

16. There are no known implications at this time.

### **Proposals**

17. The Committee is asked to

- use the 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 2021/22 actions and discuss whether any additional actions are needed at the current time.

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

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



## WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE  
25 November 2021

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### **INVESTMENT STRATEGY STATEMENT**

#### **Purpose of the Report**

1. This report explains the process in place to update the Investment Strategy Statement (ISS) for consideration and approval. It is a minor update to the version approved by the Committee in March 2021.

#### **Background**

2. The formulation, publication and maintenance of an Administering Authority's Investment Strategy Statement is required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
3. Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years. The ISS was last comprehensively revised in July 2020, and the current review is intended to incorporate some minor changes.
4. At the meeting on 30 September 2021, the Wiltshire Pension Fund Committee approved a Responsible Investment Policy (RI Policy). This was the first RI Policy to be developed for the Wiltshire Pension Fund, and was a key action set out in the Responsible Investment Plan 2021/22. The content for the RI Policy was sourced from existing material in the ISS and Responsible Investment Plan 2021/22, as well as newly agreed interim targets for decarbonisation, and some other new content to ensure that the document was in line with the current situation. The RI Policy is an integral part of the ISS, and can be found here: <https://wiltshirepensionfund.org.uk/Policies-and-strategies-investments>.
5. In order to tidy up the main ISS, the material which is replicated in the RI Policy has been removed, and references to the RI Policy have been added. There have been a few other minor amendments to bring information up to date (for example updating the information on securities lending, as this is now operational through the Brunel pool), and finally the two tables on the Strategic Asset Allocation have been combined to keep the information more concise.

#### **Main Considerations for the Committee**

6. The draft ISS is attached as Appendix 1.
7. The March 2021 version has been updated for the changes detailed above, was reviewed by the Local Pension Board at the meeting on 11 November 2021.
8. The Local Pension Board were asked to consider the process that has been followed, and to confirm that this is in line with best practice and expectations. This was agreed by board members, and the Board has recommended that the Committee approve the updated ISS.

### **Financial Considerations**

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

### **Safeguarding Considerations/Public Health Implications/Equalities Impact**

10. There are no known implications at this time.

### **Reasons for Proposals**

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

### **Environmental Impact of the Proposals**

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

### **Proposal**

13. The Committee is asked to approve the updated ISS.

JENNIFER DEVINE  
Head of Pension Fund Investments

Report Author: Jennifer Devine, Head of Pension Fund Investments

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

### **Appendices**

Appendix 1 – draft amended ISS

Wiltshire Pension Fund

# Investment Strategy Statement



November 2021

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## **WILTSHIRE PENSION FUND (“the Fund”)**

### ***1. Introduction and Background***

#### **Outline of Local Government Pension Scheme**

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

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

#### **Role of the Administering Authority**

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

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

#### **Statutory Background**

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

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

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

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

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.

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## ***2. Investment of Money in a wide variety of investments***

### **Objectives of the Pension Fund**

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

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

### **Funding Strategy Statement**

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

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

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

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

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

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

## **Investment Powers**

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

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

## **Responsibility for Decisions**

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

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

## **Types of Investments held**

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

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



## **Balance between the Various Types of Investments**

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

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

## **Expected Returns on Investments**

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

## **Risk Control**

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

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

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

## **Investment Beliefs and Objectives**

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

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

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives.
- Environmental, Social and Governance factors, including Climate Change are important factors for the sustainability of investment returns over the long term.
- In order to protect the Fund's investments into the future, the Fund supports a global warming scenario of 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, and at this time it is not felt necessary to change the investment strategy of the Fund any further.

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

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

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

#### **Investment Goal**

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

## Investment Strategy

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

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

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

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

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

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

ASSET CLASS	INTERIM TARGET ALLOCATION %	INTERIM CONTROL RANGES %	LONG-TERM TARGET ALLOCATION %	LONG-TERM CONTROL RANGES %	ROLE WITHIN STRATEGY	MANAGER	BENCHMARK / TARGET P.A.
Global Equity (Active)	8.0	23.5 – 38.5	5.0	18.5 – 25.5	Long-term growth in excess of inflation expected. Reduce carbon footprint through low carbon mandates	Brunel Global High Alpha	MSCI World +2-3% p.a.
Sustainable Global Equity (Active)	8.0		5.0			Brunel Sustainable Equities	MSCI World +2-3% p.a.
Paris-aligned Equity (Passive)	15.0		12.0			Brunel Paris-aligned Developed Passive	FTSE Developed World PAB Index TR UKPD
Emerging Markets Equity	5.0	3.0 – 7.0	5.0	3.0 – 7.0		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.
Private Equity	–	–	7.5	6.0 – 9.0		Brunel Private Equity	MSCI ACWI + 3%
<b>Equity</b>	<b>36.0</b>	<b>26.5 – 45.5</b>	<b>34.5</b>	<b>27.5 – 41.5</b>			
Infrastructure (Unlisted)	2.5	6.5 – 9.5	8.0	6.5 – 9.5	Provides access to a diversified (but long term, illiquid) return source and a stream of inflation related income.	Partners Group Brunel Infrastructure	8-12% p.a. net IRR CPI + 4%
Infrastructure (Listed)	5.5		–	–	Serves as a warehouse for capital that has yet to be drawn down into the Unlisted Infrastructure mandate, allowing interim exposure to the asset class.	Magellan Select Infrastructure Fund	CPI + 5% p.a. over the business cycle
<b>Alternative Growth Assets</b>	<b>8.0</b>	<b>6.5 – 9.5</b>	<b>8.0</b>	<b>6.5 – 9.5</b>			
Multi Asset Credit	5.0	4.0 – 6.0	5.0	4.0 – 6.0	Diversified source of income and provides a degree of protection	Brunel Multi-Asset Credit	GBP SONIA + 4-5%

ASSET CLASS	INTERIM TARGET ALLOCATION %	INTERIM CONTROL RANGES %	LONG-TERM TARGET ALLOCATION %	LONG-TERM CONTROL RANGES %	ROLE WITHIN STRATEGY	MANAGER	BENCHMARK / TARGET P.A.
					from interest rate changes. Some return above gilts expected.		
Emerging Markets Debt	5.0	4.0 – 6.0	5.0	4.0 – 6.0	Exposure to fixed income in emerging markets, serving as a good source of diversified return.	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.
Property	13.5	11.5 – 15.5	15.0	13.0 – 17.0	Diversification; income; some inflation sensitive exposure; illiquidity premium.	CBRE	IPD UK Quarterly Property Fund Index +0.4% p.a.
Private Lending	–	–	7.5	6.5 – 8.5	Offer a wide range of long-term investment opportunities; return diversification; as well as returns from expected illiquidity premium.	Brunel Private Debt	GBP SONIA + 4%
Bank loans	10.8	9.8 – 11.8	–	–	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.
<b>Income Generating Assets</b>	<b>34.3</b>	<b>26.0 – 36.0</b>	<b>32.5</b>	<b>27.5 – 37.5</b>			
Secured Income	–	–	8.0	7.0 – 9.0	Relatively low volatility asset class, aims to	Brunel Secured Income	CPI + 2%

ASSET CLASS	INTERIM TARGET ALLOCATION %	INTERIM CONTROL RANGES %	LONG-TERM TARGET ALLOCATION %	LONG-TERM CONTROL RANGES %	ROLE WITHIN STRATEGY	MANAGER	BENCHMARK / TARGET P.A.
					help service the Fund's increasing cash requirements through investing in secure inflation linked cashflows.		
Impact Affordable Housing	–	–	5.0	4.0 – 6.0	Inflation linked returns primarily derived from income with a small element of capital appreciation. Positive social impact and the potential for local (Wiltshire) investment	TBC	CPI + 2-4%
Renewable Infrastructure	–	–	5.0	4.0 – 6.0	Returns primarily derived from income from operational assets, some degree of exposure to construction type risks. Positive environmental impact.	TBC	6-8% net IRR
Gilts	21.7	16.7 – 26.7	7.0	4.5 – 9.5	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 year
<b>Protection Assets</b>	<b>21.7</b>	<b>16.7 – 26.7</b>	<b>25.0</b>	<b>19.5 – 30.5</b>			
<b>Total</b>	<b>100.0</b>	<b>–</b>	<b>100.0</b>	<b>–</b>			

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

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

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

### **Fee Structures**

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

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

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

## **4. Approach to risk and how its measured & managed**

### **Risk measurement and management**

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

#### **(a) Investment Risks**

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

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

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

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

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

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

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

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

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

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

## (b) Cashflow management risks

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

## (c) Demographic risks

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

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

#### **(d) Governance risks**

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

#### **(e) Financial ESG risks**

The Committee believes that in order to carry out their fiduciary duty by acting in the interest of its members, that effective management of Environmental, Social & Corporate Governance management (ESG) issues, including climate change, which are financially material to the Fund is essential. **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 its operator Brunel Ltd.

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

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

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

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

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

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

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

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

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

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

## **6. Policy for the exercise of rights (including voting rights) attaching to investments**

### **Voting Policy**

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

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

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

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

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

### **Stewardship Code**

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

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

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



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

The Fund plans to become a signatory to the 2020 Code by the end of 2022, recognising the significant amount of work complying with and reporting on the new Code will entail. The Fund has already had discussions with its partner funds and Brunel to ensure appropriate structures are in place to enable this.

### **Stewardship in Investment Pooling**

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

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

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

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

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

### **Advice Taken**

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

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## **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 here: <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, in one convenient place. The RI Policy will be reviewed annually.

### **Investment Consultant Objectives**

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

### **Markets in Financial Instruments Directive (MiFID)**

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

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

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

## **Appendix A**

### **12 Principles of the 2020 Stewardship Code**

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

## **Appendix B**

### **Brunel Pension Partnership**

#### **High Level Investment Principles**

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

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

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

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

***Implementation: Approach to Asset Pooling***

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

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

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

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

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

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

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

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