**WILTSHIRE COUNCIL**

WILTSHIRE PENSION FUND COMMITTEE
30 June 2016

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## STATEMENT OF INVESTMENT PRINCIPLES

### Purpose of the Report

1. This report provides Members with an annually updated Statement of Investment Principles (SIP) for the Wiltshire Pension Fund.

### Background

2. The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 require administering authorities to produce a Statement of Investment Principles. The SIP gives a comprehensive description of the thinking behind the way in which the investments of the Fund are managed.

3. In November 2015 the Department for Communities and Local Government (DCLG) issued a consultation proposing revoking and replacing the LGPS (Management and Investment of Funds) Regulations 2009. Within this consultation, proposals were made removing the requirement to prepare a Statement of Investment Principles and replacing with an Investment Strategy Statement. These regulations have not yet come into force but the Fund will ensure compliance when the new regulations are introduced.

### The 2016 SIP

4. The SIP for the Wiltshire Pension Fund has now been refined a number of times and this latest version is fully updated to take account of all the revisions to the Investment Strategy agreed to date. The purpose of the annual review of the SIP is to update it for changes to the investment strategy in year and to provide an opportunity for Committee to reconsider any of the principles.

5. The 2016 SIP has been updated to reflect the small change in terms of asset allocation, whereby the Loomis Sayles Strategic allocation has been changed to 60% Absolute Return Bonds/40% Multi Asset Credit split from a previous 50%/50% split.

6. The SIP also discusses the voluntary requirement of the Fund to produce a compliance statement with the Stewardship Code which was introduced in 2010. This outlines how institutional investors disclose and discharge their stewardship responsibilities with reference to the assets it owns. A revised code came into effect October 2012. The Fund first published a statement in September 2011 and an updated statement is attached in Supplement 2 to reflect the revisions to the Code. There are no amendments to this from last year.

7. There is also a requirement to report the Fund’s compliance in line with the 6 revised Myners principles. These 6 principles are a re-presentation of the 2002 ones with a stronger emphasis on training and development of Members and officers, the involvement of and communication with stakeholders, performance management of the committee itself and of its advisors and a framework for measuring risk and the strength of the covenants of employers. Funds need to demonstrate compliance with these principles or explain the reasons why not.

8. The Fund is compliant with five out of the six principles, while there is an area that still requires development within principle 4. To be fully compliant the implementation of a formal assessment of its advisers to ensure the cost, quality and consistency of the advice is monitored is required.

**Reasons for Proposals / Environmental Impact of the Proposals / Risk Assessment**

9. This paper does not include new policy proposals. The SIP attempts to mitigate the risks outlined in PEN007 *Significant rises in employers contributions due to poor investment returns* outlined in the Fund's Risk Register.

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

10. There are no known implications at this time.

**Proposal**

11. The Committee is asked to approve the 2016 Statement of Investment Principles.

MICHAEL HUDSON
Treasurer to the Wiltshire Pension Fund

Report Author: Catherine Dix, Strategic Pension Manager

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

# WILTSHIRE PENSION FUND

## Statement of Investment Principles

**Introductory Comment**

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 requires administering authorities to produce Statements of Investment Principles (SIPs).

The SIP for the Wiltshire Pension Fund has now been refined a number of times and this latest version is fully updated to take account of the revisions to the Investment Strategy implemented to date. The SIP gives a comprehensive description of the thinking behind the way in which the investments of the Fund are managed.

The Government introduced a code in October 2001 based on the results of HM Treasury's review of institutional investment in the UK, carried out by Paul Myners. This code set out ten principles that were intended to improve the investment management of pension funds. These were updated in October 2008 and LGPS administering authorities are now required to prepare, publish and maintain statements of compliance against a set of six principles within the SIP.

Following the financial crisis one of the recommendations of the Walker review was that the Financial Reporting Council (FRC) should have responsibility for a new Stewardship Code, setting out best practice in respect of investor engagement. At the start of July 2010 the FRC published the Stewardship Code, whilst principally aimed at asset managers, other institutional investors - including pension funds - were encouraged to report under it. Wiltshire Pension Fund published the Fund's compliance statement in September 2011, this statement has been updated to comply with the revised Code which came into effect October 2012.

Michael Hudson
Treasurer to the Pension Fund
June 2016

## Background to the Wiltshire Pension Fund

### 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. It is based on statutory provisions, issued by the central government department - Communities and Local Government. 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 (see "Objectives of the Pension Fund").

### 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.

### Objectives of the Pension Fund

The Pension Fund is established to meet all future pension liabilities of Scheme members, 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.

### Liabilities of the Pension Fund

A fund's potential liabilities increase with every employee admitted to the Scheme, although these liabilities do not come into payment until scheme members reach retirement. The ratio of contributors to pensioners therefore impacts on the cash position of a fund. This is referred to as the maturity position of the fund.

### Objectives of Investment Policy

The basic objective of LGPS pension fund investment is to minimise the level of contributions paid into the Fund by employer bodies to ensure its solvency. The primary requirement of investment policy will therefore be to achieve a real return over the long term which is over and above both the rate of both wage and price inflation.

**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 has been defined as being:

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.

**Investment Powers**

These are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations, which provide wide investment powers, subject to certain restrictions. They allow investment committees to increase their Fund's exposure to certain type of investments, but only where proper advice has been obtained.

**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 and from the Treasurer to the Pension Fund. It appoints external investment managers to implement investment policy, who are therefore responsible for day to day investment decisions.

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.

## Policy on Investments

### Types of Investments held

The Committee has freedom to operate within the Regulations. 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 quoted UK and overseas securities (equities, government and corporate fixed interest and index linked bonds), pooled funds managed by properly authorised organisations (property, equities, infrastructure, currency and long-short equity hedge funds) and sterling and overseas cash deposits. The Fund also hedges its overseas currency exposure (obtained from equities). It may also invest in futures and options, as well as limited investment in direct property.

The Committee places specific constraints on the use of futures and options, but there are no constraints on the selection of individual investments.

### Balance between the Various Types of Investments

An explanation of the relative amount to be invested in each type of investment is provided in the Section below on the strategic benchmark adopted by the Committee (see “Overall Investment Strategy”). In very broad terms, the result is that the Fund is to be invested 60% in equities, 15.5% in bonds, 13% in property and 11.5% in Alternatives. However, that does not mean that these percentages need to be rigidly maintained.

### 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.

### 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.

Key themes were considered during the latest review including return generation, inflation protection, nimbleness and illiquidity/Cashflow management.

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 the World Index or Inflation plus targets.

The Committee does not impose specific portfolio risk limits on its equity managers, as it believes the out performance target set for each manager provides sufficient guidance as to the level of risk that each manager should be taking.

**Realisation of Investments**

Officers continue to monitor the Cashflow position of the Fund to ensure sufficient resources are available to pay benefits as they fall due. For 2015-16 cashflow was broadly neutral excluding investment income. Therefore there is no specific requirement for the current realisation of investments.

**Environmental, Social and Governance (ESG)**

The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests. It does this by contracting to Pensions & Investment Research Consultants Limited (PIRC) who provides a global proxy service for the Fund using PIRC Shareholder Voting Guidelines that are approved by the Fund. The Fund receives proxy research and voting recommendations for each company AGM and EGM holding the Fund has that can be voted.

It is also a member of the Local Authorities Pension Fund Forum (LAPFF), to enable it to act with other local authorities on corporate governance issues. The Forum currently has 70 member funds with assets of more than £175 billion.

The Fund expects its investment managers to take account of social, environmental and ethical considerations in the selection, retention and realisation of investments as an integral part of the normal investment research and analysis process. This is insofar as these matters are regarded as impacting on the current and future valuations of individual investments. The Fund believes that taking account of such considerations forms part of the investment managers' normal fiduciary duty.

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

The Fund seeks to achieve this objective by raising issues with companies in which it invests, to raise standards in a way that is consistent with long term shareholder value. Again, the Fund primarily uses its membership of LAPFF to affect this policy.

The introduction of the Stewardship Code in July 2010 by the Financial Reporting Council strongly encouraged best practice in respect of investor engagement. The expectation is that institutional investors should publish a statement in respect of their adherence to the code. Compliance with the Code is currently on a voluntary basis. The Wiltshire Pension 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's compliance statement can be found at the end of this document in Supplement 2.

### Securities Lending

The Council participates in a securities lending programme managed by its global custodian.

### Other Matters

The Council will also underwrite, or sub-underwrite, new issues where the investment managers are prepared to hold the relevant shares.

A Commission Recapture programme was introduced in 2003-04, where an element of the commission that is paid to brokers on stock market transactions is recovered.

## Current Investment Strategy

### Solvency Position of the Wiltshire Pension Fund

The results of the actuarial valuation of the Fund as at 31 March 2013 showed that Fund liabilities totalled £2,094 million, whilst assets stood at £1,484 million. The Fund therefore had a deficit of assets of £610 million, or expressed another way, had a solvency level of 71%. This compared with a solvency position at 31 March 2010 of 75%. This decrease of 4% places Wiltshire Pension Fund broadly in line with the average LGPS scheme. The next actuarial valuation as at 31 March 2016 is currently being undertaken.

### Funding Policy

The objectives of the Wiltshire Fund's funding policy, as expressed in its Funding Strategy Statement, include the following:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependents' benefits as they fall due for payment;

- to ensure that employer contribution rates are reasonably stable where appropriate;

- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs borne by Council Tax payers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

**Fulfilment of Funding Strategy through Investment Strategy**

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 faster than originally expected. Cashflow were broadly neutral for 2015-16 excluding investment income. Investment income is available if the Fund does go Cashflow negative, this position is being closely monitored but at this time it is not felt necessary to change the investment strategy of the Fund.

As the Fund has a deficit of assets against liabilities, the Committee wishes to achieve the maximum assistance from investments in reducing this shortfall. This would suggest a higher risk strategy in an attempt to generate returns, but this is moderated by the realisation that such a strategy can also lose significant amounts of money in the short-medium term.

It is ultimately the local tax-payer who feels the result of unstable employer rates, 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 markets (“beta”) and investment managers (“alpha”) whose returns are skill based and relatively independent of the market.

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, and absolute return products to achieve to achieve stabilisation; and

- The achievement of some “alpha” (manager) returns independently of “beta” (market) returns, through high alpha equity strategies.

In terms of equity investment, there is significant concentration in the UK market and many of the larger companies in the UK Index derive a high proportion of their earnings overseas, so the extent to which they should be regarded as UK companies is questionable. As a consequence, the Fund’s proportion invested in UK equities has gradually been reduced to approximately 31% of total equity holdings, with a corresponding increase in the proportion invested in overseas/global equities, which now stands at 69%.

In the summer of 2011 a review of the current investment arrangements was commenced in light of investment managers’ performance. The strategic asset allocation of the Fund changed a little as a result however a number of new manager searches followed from the review. The Committee resolved:

- an aspiration to move the Fund’s equities split to 30% UK/70% overseas as opportunities arise from changes in the equities mandates;
- to remove the 12.5% limit for new investment mandates and to set a limit of 20% for a single active manager and 30% for a passive manager;
- to implement a dynamic currency hedging programme;
- to make a strategic allocation of 10% to an Absolute Return Fund Mandate;
- to make a strategic allocation of 5% to an infrastructure manager;
- to make a strategic allocation of 5% to a global equities passive ‘fundamental’ index product;
- to hold a passive global equities allocation of 10% on a temporary basis;

These changes were implemented during 2012/13.

At the February/June 2013 Committee meeting further changes were made to the strategic allocation moving forward. Steps have now been taken to put these in place.

- At the February/June 2013 meeting the Committee resolved to terminate the Edinburgh Partners mandate (7.5% of the Funds assets and place these assets in the Fundamental Indexation mandate (with L&G);
- to agree a strategic allocation of 10% to an Emerging market Equity/Debt product for the funds placed temporarily with Legal & General (Passive Global

Equities) and for officers to commence the appropriate procurement process to enable a suitable manager to be appointed by the Committee;

- to terminate the Jubilee Advisors (formally Fauchier Partners) mandate (5% of the Fund's assets) and place these assets temporarily with Legal & General (Passive Global Equities) mandate; and

- to agree up to a 5% initial allocation for the purpose of Opportunistic Investing.

The assets from the Edinburgh Partners mandate have now all been transitioned across to the Legal & General Fundamental Indexation mandate. The Committee approved on 24 January 2014 the appointment of Investec to manage 10% of the Fund's assets in the Emerging Market Multi-Asset Strategy. The initial investment took place in Quarter 2 2014. The Jubilee Advisors mandate was retained until Investec were fully funded which was completed July 2015. The reason was to use the Jubilee Advisors mandate to fund the Investec mandate to avoid duplication on transitions costs.

At the Committee meeting on 17 July 2014 officers presented concerns as to whether the bond mandate in its current form would provide sufficient ongoing returns because of historical low bond yields and their sensitivities to interest rates which could rise in the next 12 to 24 months. To address this, Mercer recommended expanding the bond mandate from traditional corporate credit to Multi Asset Credit (MAC) and Absolute Return Bonds (ARB). A procurement exercise followed and a shortlist of managers presented to the Committee on 3 December 2014. Loomis Sayles was appointed at that meeting to manage two mandates; MAC and ARB with a strategic allocation of 5.25% each. Assets were transitioned from Western Asset Management during March 2015.

Due to market conditions the strategic allocation been the two Loomis Sayles mandates was changed in March 2016 to 6.3% ARB and 4.2% MAC.

This means the Fund's asset allocation is as follows:

| Asset Allocation | Moving Forward |
|---|---|
| Equities:<br>Long-Only<br>UK*<br>Overseas (Global)**<br>Absolute Return (Lower Volatility)<br>Emerging Market Multi Asset | <br><br>12.5%<br>27.5%<br>10.0%<br>10.0%<br>60.0% |
| Bonds | 15.5% |
| Property | 13.0% |
| Alternatives:<br>Infrastructure<br>M&G Financing Fund<br>Opportunistic Investment | <br>5.0%<br>1.5%<br>5.0%<br>11.5% |
| | 100.0% |

* (sits at approximately 14.6% if including UK element of global mandates)
** (includes active and fundamental indexation)

## Investment Management Mandates

The allocation of mandates to managers is as follows:

| MANAGER/MANDATE ALLOCATION | Moving Forward |
|---|---|
| **Baillie Gifford** | |
| Global Equities | 15.0% |
| **Legal & General** | |
| Passive UK Equities | 12.5% |
| Passive Global Equities * | 0.0% |
| Passive Fundamental Equities | 12.5% |
| Passive Index-Linked Bonds (UK) | 5.0% |
| **Barings** | |
| Absolute Return Fund | 10.0% |
| **Loomis Sayles** | |
| Multi Asset Credit | 4.2% |
| Absolute Return Bonds | 6.3% |
| **Investec** | |
| Emerging Market Multi Asset Mandate | 10.0% |
| **CBRE Global Multi Manager** | |
| Property Fund of Funds (UK & Europe) | 13.0% |
| **Partners Group** | |
| Infrastructure | 5.0% |
| **M&G Investment Management** | |
| UK Companies Financing Fund | 1.5% |
| **Opportunistic Investment *** | 5.0% |
| **TOTAL** | **100.0%** |

*** "Opportunistic" allocation held within L&G global equities until invested**

## Timeframe for Investment Managers' Targets

Three year targets are generally preferred 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.

## Review and Policy

The Investment Sub-Committee now 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, BNY Mellon.

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 reviews its investment strategy once a year. The next formal review will take place in July 2016.

## Other Matters

### Fee Structures

The Committee generally expects to have an ad-valorem fee scale applied in respect of the investment management services it receives. This is generally accepted practice 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. For investment advisory services, a fee is charged by the hour.

## Supplement 1

## The Myners Principles
## Compliance with Investment Principles for Defined Benefit Schemes

**1. Effective decision-making**

- **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**

- **Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

The Wiltshire Pension Fund is fully compliant with this principle. The Governance Compliance Statement outlines the organisation and operation of the Committee and shows compliance with the nine governance principles as set out in CLG's *Local Government Pension Scheme Governance Compliance Statements Statutory Guidance*.

The Fund also has a Business Plan outlining the purpose, scope, goals and business objectives along with an action plan and key target dates. The latest Business Plan was updated and approved by the Pension Fund Committee in July 2015. This outlines the major milestones for the three years between 2015-2017. This enables the Committee to plan, anticipate and to resource key actions over this period which inform the Pension Fund's annual budget. The budget and Business Plan processes involve a continuous reappraisal of the adequacy of the Committee's resources.

A necessary element to ensure full compliance is the ability to demonstrate that both Committee Members and officers have sufficient expertise and knowledge to carry out their roles and duties.

The Committee does have a clear commitment to training. All Committee Members are given induction training and are supplied with a Members' handbook outlining their responsibilities, how the Fund is governed and its operations. A self assessment audit was undertaken of Members during July 2014, these identified areas for further development. As a result a Members training plan was also adopted by the Committee in March 2015 which covers the period 2015-2017 to ensure Members have knowledge of background issues to enable them to make informed decisions.

Training is delivered through the use of officers, external speakers, and tailored training events. Members are also encouraged to attend external seminars and conferences. All Members have full access to all training opportunities and are allowed to claim reasonable expenses.

The Committee has adopted the CIPFA Knowledge and Skills Framework (KSF). This specifically focuses on the roles of the Chairman, Vice Chairman, Members of the Committee, Treasurer to the Pension Fund, Head of Pensions, Strategic Pension Manager, Pension Fund Accountant and Investment officers.

Although the KSF is currently a voluntary code amended regulations are expected to require the Annual Report to include a statement of the actions undertaken and progress made in addressing any skills gap.

**2. Clear objectives**

- **An overall investment objective should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on the local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisors and investment managers.**

The Wiltshire Pension Fund is fully compliant with this principle. The Triennial Valuation 2013 report, Funding Statement Strategy, and Statement of Investment Principles explain in detail the objectives of the Fund.

**3. Risk and Liabilities**

- **In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.**

- **These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.**

The Wiltshire Pension Fund is fully compliant with the principle. The Funding Statement Strategy, Admissions Policy, and Cessation Policy all consider these issues.

A framework exists to monitor the risks for all areas of the Pension Fund including administration, operations, investments, accounting and governance. The register is based on the Council's standard "4x4" approach. The cause and impact of each risk are highlighted and assessed based on its impact and likelihood. This is measured against the target risk. The current risk controls to mitigate these risks are also highlighted. The Committee receive this specific Pension Fund Risk Register on a quarterly basis with an update of any changes since the last report for comment and approval.

The Committee also receive reports in relation to internal controls from both internal and external auditors. The Fund also participates in the Club Vita longevity project which provides specific longevity analysis.

## 4. Performance Assessment

- **Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.**

- **Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members**

The Wiltshire Pension Fund is fully compliant with this principle with reference to measuring performance of investments and investment managers, however the Fund is partially compliance in respect of measuring the performance of advisors and the Funds Committee's effectiveness.

The Fund currently undertakes an assessment of its advisors on a more qualitative basis and market tests them when contracts are due for renewal. A more formal arrangement for assessments could be developed for advisors to measure cost, quality and consistency of advice received.

The Committee believes that its effectiveness can ultimately be measured by the level of success achieved in minimising and stabilising the level of contributions paid into the Fund by employing bodies to ensure its solvency. Work remains on-going to achieve this aim while the Governance Compliance Statement in conjunction with the continued adoption of CIPFA's Knowledge and Skills framework standards will ensure the continue effectiveness of the Committee.

An Administration Strategy was revised by this Committee in December 2015, this outlines the administrative service standards expected from by both the Wiltshire Pension Fund and employers. This ensures the efficient administration of the scheme and updates are provided to Committee on its progress.

## 5. Responsible Ownership

**Administering authorities should:**

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents**

- **Include a statement of their policy on responsible ownership in the statement of investment principles**

- **Report periodically to scheme members on the discharge of such responsibilities**

The Wiltshire Pension Fund is fully compliant with this principle. The Fund manages its ownership responsibilities through its partnership with PIRC. PIRC's voting guidelines are based on their expertise and track record of monitoring and developing corporate governance best practice spanning environmental, social and governance factors. They link their underlying Shareholder Voting Guidelines to the

UK Corporate Code, published by the Financial Reporting Council in 2010 and subsequent revisions. PIRC's approach to best practise in corporate governance also in some areas goes beyond the existing legal and regulatory requirements.

PIRC reports quarterly on its voting activity and these reports are available to Committee Members through the website. PIRC also present annually to the Committee which assists Members to play a more active role in the Fund's voting activities.

The Fund undertakes its engagement activities through its membership of the Local Authority Pension Fund Forum in conjunction with expectations of its asset managers to report on their engagement activities on a regular basis. Further details are contained within the SIP which is available to all stakeholders. The Fund has also produced a compliance statement in respect of the Stewardship Code.

## 6. Transparency and reporting

**Administering authorities should:**

- **Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives**

- **Provide regular communication to scheme members in the form they consider most appropriate.**

The Wiltshire Pension Fund is fully compliant with this principle. It produces the following documents which are approved by the Committee and communicated to the appropriate stakeholders to fulfil requirement on transparency:

- Governance Compliance Statement
- Pension Fund Annual Report
- Funding Strategy Statement
- Communications Policy
- Statement of Investment Principles
- Reports under the Stewardship Code

These are all available on the Fund's website, so any stakeholder or other interested party has access to this information.

The Communications Policy outlines the different channels and frequency of communications while also indentifying the different stakeholders.

## Supplement 2

### UK Stewardship Code – Wiltshire Pension Fund Response

**Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

Wiltshire Pension Fund takes its responsibilities as a shareholder seriously. Various policy documents are produced which identify how we meet our Stewardship responsibilities including our Statement of Investment Principles and Governance Compliance Statement.

In practice the Fund's policy is to apply the Code both through its arrangements with asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF). In addition expects its Asset Managers to take account of social, environmental and ethical considerations when making investment decisions. The objective of LAPFF is to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the forum brings together a diverse range of local authority pension funds with combined assets of over £175 billion. We also have amended our Statement of Investment Principles in recognition of the Stewardship Code.

The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests. It does this in Partnership with Pensions & Investment Research Consultants Limited (PIRC) as set out above.

**Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.**

Wiltshire Pension Fund encourages all its asset managers to have effective policies in place to address potential conflicts of interests. The need to avoid conflicts of interest is also highlighted in our asset manager mandates and contracts with external parties.

All equity managers are instructed to vote in line with PIRC recommendations. Should a conflict arise the asset manager would notify the Fund and the ultimate decision would be made by officers in consultation with the Chairman of the Pension Committee.

In respect of conflicts of interests within the Fund, Committee members are required to make declarations of interest at the start of all meetings. A public register of interest is also maintained for all Councillors.

**Principle 3 – Institutional investors should monitor their investee companies.**

Day-to-day responsibility for managing our equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor companies, intervene where necessary, and report back regularly on engagement activities. Reports from our asset managers detailing engagement activities are available for the Pensions Committee on a quarterly basis.

Wiltshire Pension Fund manages its ownership responsibilities in partnership with PIRC. See above.

**Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.**

As highlighted above, responsibility for day to day interaction with companies is delegated to the fund managers, including the escalation of engagement. Their guidelines for such activities are anticipated to be disclosed in their own statement of adherence to the Stewardship Code.

Occasionally, the Fund may choose to escalate activity directly, principally through engagement activity by the Local Authority Pension Fund Forum. When this occurs the Chairman of the Pension Committee in communication with the Vice Chairman, Treasurer to the Pension Fund and Head of Pensions will decide whether to participate in the proposed activity.

**Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate.**

Wiltshire Pension Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.

**Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activities.**

Wiltshire Pension Fund manages its ownership responsibilities in partnership with PIRC. The Wiltshire Pension Fund committee have reviewed and agreed to adopt PIRC's shareholder voting guidelines. These voting guidelines are regularly updated and publicly available on their website. PIRC provide a proxy voting service across the holdings of all our global equity managers.

**Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.**

Wiltshire Pension Fund annually reviews and updates its Statement of Investment Principles, which sets out the Fund's approach to responsible investing. The activity undertaken by the Local Authority Pension Fund Forum is regularly made available to Committee and in addition reported in the Fund's Annual Report and Accounts.

**Wiltshire Pension Fund**
**June 2016**