REVIEWING THE EFFECTIVENESS OF THE INVESTMENT SUB COMMITTEE

September 2016

INTRODUCTION

The purpose of this report is to consider the effectiveness of the Investment Sub Committee of the Wiltshire Pension Fund over the last 12 months.

This type of reporting (and discussion) is typically considered good governance practice for pension fund committees and should be evolved over time as the ISC becomes more established. Moreover, the management of the Fund is a long term commitment, and ideally, the ISC will consider the impact of the decisions it makes over a longer time frame than just a year. With this is mind, we have included in the Appendix some sample charts that the ISC may want to consider including in future versions of this report, as the ISC's history builds and more importantly, and funding and investment objectives are confirmed as part of the actuarial valuation process during 2016. So, for example, in future we would suggest that we look at the longer term impact of decision making on the funding level.

Assessment of effectiveness is not an exact science, and we have posed this initial report as a discussion document, rather than a fait accompli.

We have considered the effectiveness of the ISC along two lines:

- The quantitative impact of decisions taken
- A qualitative assessment of the effectiveness of the ISC in a more holistic sense

Decisions taken by the ISC over the last 12 months are as follows:

Retention of Baring Asset Management to manage the multi asset mandate
Decision to implement a flight path / trigger strategy to reduce risk as the funding level improves
Decision to change the strategic allocation within the Loomis Sayles mandate

ASSESSMENT OF VALUE ADDED FROM ISC DECISIONS

Strategic Decision	Period	Positive absolute return over full period?	Performance relative to peers?	Outperformed relative to previous asset?	Comment
To retain Barings for the multi asset mandate (but to set triggers for review in relation to assets under management)	June 2015 – ongoing			n/a	Barings returned -0.9% over the 12 months and were in the 3rd quartile of peers. Performance continues to be monitored and communication maintained with Brunel peers who also invest in this strategy
To implement a flight path / trigger strategy to reduce risk as the funding level improves	Ongoing	n/a	n/a	n/a	Market conditions have meant trigger have not yet been hit. Quantitative assessment will be made once implemented post 2016 actuarial valuation
Decision to change the strategic allocation within the Loomis Sayles mandate to 60% absolute return / 40% multi asset credit from 50/50.	February 2016		n/a		Only one full quarter to monitor, but absolute return outperformed multi asset credit by 3.8% so the decision to bias the mandate towards absolute return has paid off over this very short period

ASSESSMENT OF ISC ACTIVITY

Activity	Assessment	Comment
Removal of investment business from main Pensions Committee agendas		The ISC has freed up considerable agenda time for the Pensions Committee and over the last twelve months has dealt with manager monitoring and initial strategy discussions with an eye to the actuarial valuation. Is the Pensions Committee kept up to date with ISC business and is there a challenge mechanism?
Manager monitoring		Manager meetings are arguably more focused (one meeting for traditional assets, one for alternatives) and in-depth given that more time can be dedicated in ISC meetings . Should the ISC consider setting the agenda for each meeting to allow for more focused discussion depending on (for example) the market environment or the ISC's workplan?
Training		The ISC (and full Committee) are committed to training and the annual event allows for a strategic overview to be taken. Should the ISC consider hot topic training throughout valuation and strategy review period?
Engagement with LGPS pooling agenda		The ISC has received regular briefings from Officers and the Pensions Committee Chair on Brunel activity and has received training on asset pooling, regulatory structures and work plans. Is the ISC up to speed on the pooling timetable and Officer time commitments?
Increased speed of decision making		Arguably no time critical decisions have needed to be made, but the ISC is cognisant of the issue, and appears comfortable with the idea of making decisions in principle and setting triggers for implementation (e.g. as per the Barings mandate).

FUTURE ASSESSMENT OF ISC EFFECTIVENESS

		Good outcome looks like:
Financial Outcomes	Funding status	Changes in funding level driven by clear strategy designed around funding objectives.
	Risk	Improvement in prospective return per unit of risk.
	Performance	Recommended managers achieve their targets.
Delivery	Organisation	Clear and focused agendas, time to read meeting materials in advance and enough time at meetings to discuss key issues.
	Understanding	Clear idea of issues at hand and a sense of being on track.
	Decisions	IC clear on any decision to be made (what, why and when).
	Oversight	Monitoring is two fold; funding level progression and managers. Agenda is driven by the ISC
Implementation	Execution	Swift execution of decisions and actions
	Monitoring	Identifying, escalating and resolving issues quickly.
Relationship	Team	Clear roles and link to Pensions Committee. Environment where challenge is welcomed.
	Cost control	Good budgetary discipline; no surprises; savings made.

APPENDIX

MONETARY IMPACT SUMMARY – EXAMPLE – NOT FUND SPECIFIC

Approximate Funding Impact of Decisions

Source: Mercer, investment managers. Net of investment management fees and transaction costs incurred, with the exception of decision 9 where potential transaction costs are not considered.

The decision to not more closely hedge the liability risks over the 5 years to 30 June 2015 has been costly to the Scheme, with the opportunity cost dwarfing the gains and losses attributable to the other decisions shown.

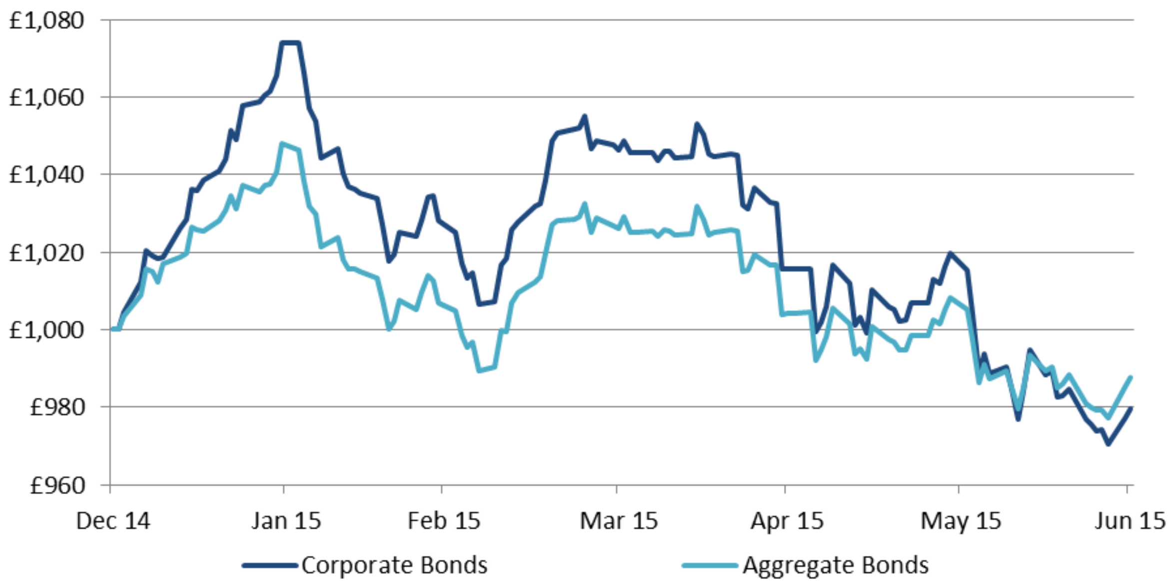
Of the manager selection decisions, the appointment of Majedie has been most successful in monetary terms, adding c.£1.9m since inception, whereas the decision to appoint THS has been the least successful, costing the Scheme c.£0.7m since inception.

The decision to rebalance the Scheme's assets in September 2011 has generated a gain of c.£0.6m, while the rebalancing exercise implemented in March 2014 has had a marginally negative impact to 30 June 2015 in monetary terms.

IMPLEMENTATION DECISIONS - EXAMPLE
PASSIVE MANAGEMENT OF UK CORPORATE BONDS VS ACTIVE AGGREGATE BONDS

Mandate	Asset Value (31 December 2014) (£m)	Net Performance to 30 June 2015 (% p.a.)	Implied Funding Impact * (£)
Passive Corporate Bonds	5.1	-2.7	-139,000
Active Aggregate Bonds	-	-1.3	-64,000
Opportunity Gain	**5.1**	**+1.4**	**-£75,000**
BoAML Sterling Broad Market Index	-	*-1.2*	*-63,000*

Assumes monies were transferred from XYZ passive corporate bond fund to ABC Aggregate Bond Fund on 31 December 2014. Does not take into account any transaction costs which may have been incurred
* Figures shown to nearest £1000.



Source: Thomson Reuters Datastream. "Corporate Bonds" represented by the iBoxx Sterling Non-Gilts Over 10 Years Index and "Aggregate Bonds" represented by the BoAML Sterling Broad Market Index, the benchmark for the Scheme's aggregate bond mandate.

Estimated funding impact (net)	
Since Inception	**12 months**
-£75,000	n/a

Summary of Decision

In March 2014 the Investment Committee ("IC") discussed the merits of transferring the Scheme's investment in XYZ long dated passive corporate bond fund to an alternative mandate, noting Mercer's preference for credit to be managed on an active rather than a passive basis. The Investment Committee indicated a preference to transfer the monies to the existing ABC aggregate bond mandate (which invests in both corporate bonds and gilts). The decision was deferred to the December 2014 IC meeting, where it was agreed that there was a need to transfer out monies but a decision was not reached on where the proceeds should be directed.

Monetary Gain/Loss

The decision to retain monies in the XYZ passive corporate bonds mandate rather than transfer monies to ABCs aggregate bonds mandate cost the Scheme c.£75,000 over the six month period to 30 June 2015.

The majority of this is attributable to the lack of gilts exposure (with gilts outperforming credit) while the active ABC mandate marginally underperformed the index.

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