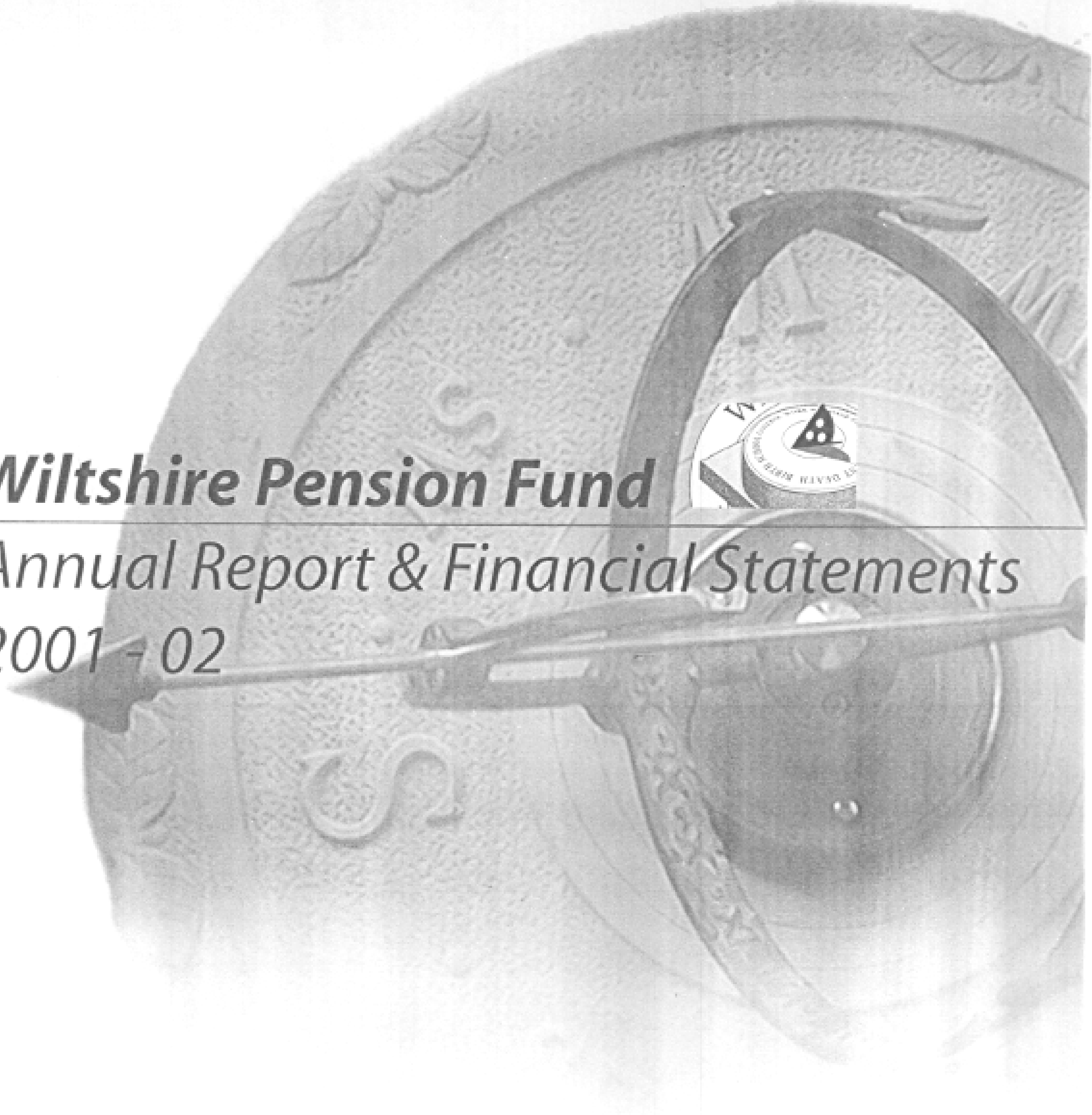
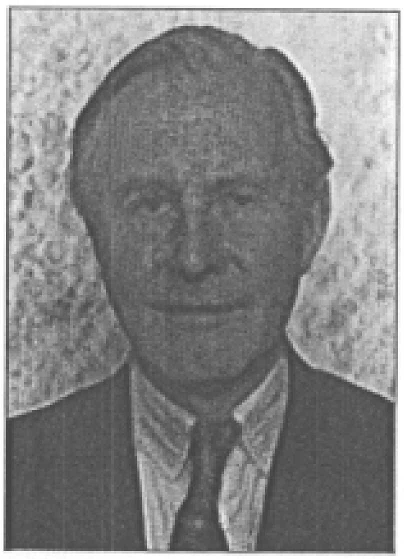
Wiltshire Pension Fund

Annual Report & Financial Statements 2001 - 02

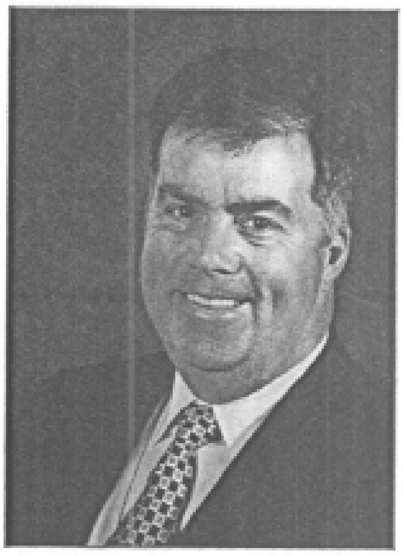


Wiltshire
COUNTY COUNCIL

Contents



David Lay
Chairman, Wiltshire Pension
Fund Committee



Mike Prince
County Treasurer

1 - Introduction

This booklet is produced by the County Treasurer of Wiltshire County Council and contains details of the accounts of the Wiltshire Pension Fund for the year to 31 March 2002. It supplements the statement of accounts of the County Council, a formal publication required under the Accounts and Audit Regulations 1996 and the Code of Practice on Local Authority Accounting.

The Fund is administered by the County Council under the Local Government Pension Scheme Regulations 1997 for local authorities within Wiltshire and other local government associated organisations. The Fund meets the cost of pension benefits due to current and ex employees of these organisations, apart from teachers, and uniformed police and fire personnel, who have separate pension arrangements.

As well as reporting the accounts, the opportunity is taken to cover matters of wider interest that affect the Fund, its investments and pension provision generally.

This booklet is primarily aimed at the participating employer organisations within the Wiltshire Pension Fund, which are listed in Appendix (a). A summary version of the accounts will be made available to all staff who are, or are eligible to be, members of the Local Government Pension Scheme. The availability of this more detailed Annual Report will be also advertised to them and to retired scheme members.

Report by the Wiltshire Pension Fund Committee

Introduction

This is the first year that this report is being made on behalf of the Committee as a whole, rather than by the County Treasurer. This stems from the fact that the Government requires local authorities to have "modernised" the way they manage their affairs. This has involved the County Council in setting up a Cabinet arrangement for executive decision making. The Government has decided, however, that administration of the Local Government Pension Scheme is not an executive function. Responsibility for all aspects of this function has therefore been placed with the Wiltshire Pension Fund Committee. It follows that, as "trustees" of the Fund, the Committee itself makes this report. Details of the current membership of the Committee are provided in Appendix (d).

Having made reference to the County Treasurer, it is appropriate at this point to report that David Chalker has, with effect from 1 April 2002, become a Wiltshire Pension Fund pensioner. His successor is his former Deputy, Mike Prince. We wish them every success in their respective new roles.

Two main themes have dominated this past year, and both have had a major impact on the Fund. Firstly, as life expectancy continues to increase, so does the cost of providing a pension for retirement. Secondly, it has been a second consecutive year of negative stock market returns. This, at a time when the Wiltshire Pension Fund was the subject of its latest actuarial valuation, is not good news. More details on this follow.

In addition, comments are made on a number of other matters. Firstly, a fundamental review of the Fund's investment strategy has been undertaken, which has largely been prompted by the latest actuarial valuation results. This in turn has implications for the Fund's Statement of Investment Principles, which are also affected by various Government initiatives. Secondly, a new accounting standard, FRS17, has been introduced, which some see as the death knell for defined benefit pension schemes. Thirdly, an update is provided on Equitable Life. Finally, reference is also made to E-Government, and what is being done to respond to this initiative as far as the administration of the Wiltshire Pension Fund is concerned.

The Health of the Wiltshire Pension Fund

As indicated, the results of the latest triennial actuarial valuation of the Fund, carried out as at 31 March 2001, have been published. The report of the actuary, Hymans Robertson, is provided on page 22.

The results show that, whilst the Fund overall remains in deficit, it has slightly improved its overall solvency position, from 78% to 80%. This is despite the fact that increased life expectancy is a negative factor for funds, and recent stock market valuations have been disappointing. The Fund has therefore improved its position at a time when most other funds have shown a deteriorating position, albeit mainly from a stronger position.

This has been achieved largely as a result of the high contribution rates that employers in the Fund have paid over the past three years. Unfortunately, these will have to stay in place until full solvency is achieved. Any improvements that can be obtained in investment performance will help to reduce this burden, and it is because of this that a review of investment strategy has been undertaken (see below).

Unfortunately, unlike unfunded pension schemes, such as the Civil Service, Police and Fire schemes, the costs of funded schemes are very visible. This is because full provision for meeting costs has to be made at the time the pension liabilities are being accrued, NOT when they come into payment. It has therefore been very easy for the media to latch onto the increase in employer contribution rates in local authority pension funds as an excuse for some headline grabbing.

Nevertheless, the Government is clearly concerned about the rising cost of pension provision generally, and the Local Government Pension Scheme is one of many schemes that are being subject to review. Whilst any changes are only likely to affect new entrants, the results of this review are awaited with interest.

Investment Strategy Review

With the Wiltshire Pension Fund having a significant deficit position, any measures that can be taken to deflect the burden for recovering this deficit from the shoulders of the employer bodies is something that the Wiltshire Pension Fund Committee will pursue with enthusiasm. The obvious answer is to look for higher returns from the Fund's investments.

The latest actuarial valuation results have been the prompt for a review of the Fund's investment strategy. This, however, has been undertaken at a time when the Government also has shown interest in this area of activity. This has been prompted by a review of Institutional Investment in the UK, carried out by a leading City figure, Paul Myners, the results of which have been supported by the Government and which are resulting in a development of best practice for pension fund investment.

In particular, pension funds are being encouraged to develop an investment strategy that specifically relates to the financial position of individual funds, rather than a strategy that just follows the "herd", that is, doing what other funds do.

The Committee has responded by doing exactly that, i.e. setting an investment strategy that specifically takes account of the unique features of the Wiltshire Fund. In particular, this strategy recognises the make up of the Fund's pension liabilities, its deficit position, and its strong positive cash flow resulting from its high employer contribution rates.

This revised strategy is planned for implementation by 1 October 2002, and will result in a move to the appointment of investment managers who specialise in individual investment markets. In overall terms, the objective sought is to improve the scope for higher investment returns without increasing the Fund's overall exposure to risk.

Statement of Investment Principles

The Fund's Statement, which has to comply with statute, has to be updated to take account of the revised investment strategy. In addition, however, it also has to be amended to take account of recent Government initiatives that impact on institutional fund investment. Rather than detail these here, the County Treasurer explains them in the introduction to what is a new, expanded Statement of Investment Principles set out in Appendix (e).

FRS17

Financial Reporting Standard 17 is the new accounting standard for pension costs in UK company accounts, which is also to be applied to local authorities. Full implementation is applicable to financial accounting periods ending on or after 22 June 2005, whilst disclosure of required information has to be provided as a note to the accounts for accounting periods ending on or after 22 June 2001.

It is therefore applicable to a number of employer bodies in the Wiltshire Pension Fund, not all of which have a 31 March financial year-end. Further Education Colleges, for example, have a 31 July year-end, so these bodies had to comply with FRS17 for their year ending 31 July 2001.

FRS17 has been the subject of a barrage of criticism, and is now even being blamed for the closure of a number of company defined benefit pension schemes. The problem is the greater volatility that its introduction will bring into company accounts.

In the past, the requirement has only been to show cash contributions into pension schemes as a pension cost in company accounts. Now, however, the value of pension benefits accrued, together with the value of assets, if any, set aside to meet those liabilities, will have to be included in the balance sheet.

The issue, unfortunately, is rather technical. Liabilities will be calculated by discounting them to current value using a current market yield on bonds. A large proportion of pension fund assets, however, is usually invested in equities, which are assumed to provide superior returns than bonds over the longer term. Equities, however, show greater price volatility than bonds, so considerable fluctuation in the overall financial position of companies can be anticipated. This is especially a problem when equity markets are valued at relatively low levels, as they are now.

For Wiltshire Pension Fund employers, whilst no direct impact will be felt by council taxpayers as a result of the introduction of FRS17, it will eventually impact on non-local authority employers.

In addition, the introduction of the new Standard will require the provision of information to employers to enable them to comply with it. This is something that the County Council, in administering the Wiltshire Pension Fund, must provide, and it has tried to ensure that systems are in place for the prompt and accurate provision of this information.

Update on Equitable Life

In last year's Report, reference was made to the problems at the Equitable Life Assurance Society, a major provider of Additional Voluntary Contribution funds (AVCs) to pension schemes, including the Wiltshire Pension Fund.

Matters got to the stage where it appeared that the solvency of Equitable might be in doubt, and the situation was a cause of great concern to Wiltshire scheme members with Equitable AVCs, as it was to all Equitable policyholders. Fortunately, the position was retrieved through a compromise being reached on the cause of the problem, the conflict between Equitable policyholders who had a right to guaranteed pension benefits and those who did not.

This episode serves as a reminder that even the most long established and well respected institutions can get into trouble, and also that no investment can ever be 100% guaranteed to give a positive real return. It is perhaps a reminder that it is a wise person who does not to put all their investment eggs into one basket.

Following the Equitable debacle, the County Council has now arranged for a number of new AVC fund options to be made available to scheme members from Clerical Medical, another well known and respected pension provider. It is assumed that lightning does not strike twice in the same place!

E-Government and the Wiltshire Pension Fund

The Committee is keen to support the Government's agenda for making more effective use of electronic delivery of information to support service delivery. The establishment of a Wiltshire Pension Fund web site is seen as a key issue in this respect.

This decision is also backed up by demand from scheme members as demonstrated through customer surveys. It is intended that, once fully implemented, the web site will not just be for informing scheme members and employer bodies, but will actually enable improvement in the way in which administration tasks are carried out.

It is hoped, for example, that transmission of data from employer bodies on new entrants into the pension scheme, leavers, retirements, and annual pension contributions, will be carried out via the web site. It is also hoped that scheme members will eventually be able to have secure access to their own pension records, and will, for example, be able to amend their home address record on-line.

Another more immediate benefit should be a reduction in enquiries from survey organisations, the press, and potential service providers seeking information about Fund statistics and activities. Considerable savings should also eventually be achieved in the cost of printing and sending out information material such as annual benefit statements and newsletters.

With this in mind, work is underway on implementing the Fund's web site, and it is hoped to have this available later this year.

Conclusion

Hopefully, it will be seen from this report that the world of pension provision continues to attract more and more attention. The Committee is therefore particularly determined to ensure that the administration of all aspects of the Wiltshire Pension Fund is carried out as efficiently and effectively as possible.

As part of this, it will monitor carefully the provision of the various services involved in exercising this function, including imposing appropriate budgetary disciplines and benchmarking requirements. The overall objective, however, remains very much in sight, that is, a reduction in the level of contributions that employer bodies are required to pay into the Fund.

David Lay, Chairman

On behalf of the Wiltshire Pension Fund Committee

Financial Statements

(a) Who is responsible for what?

Wiltshire County Council

The County Council has to arrange for the proper administration of the Wiltshire Pension Fund. In particular, it needs to ensure an economic, efficient and effective use of resources in carrying out this administration, and that the Fund's investments are safeguarded.

The County Council has delegated this responsibility the Wiltshire Pension Fund Committee. It also, however, has to ensure that one of its officers has responsibility for the financial aspects of that administration, this being the County Treasurer.

Wiltshire Pension Fund Committee

There are eight elected members of the Committee, comprising five County Councillors, two Swindon Borough Council members, and one member representing the four District Councils within Wiltshire. In addition, there are two observers representing staff interests. Details of the membership of the Committee in 2001-02 are shown in Appendix (d).

Included amongst the powers delegated by the County Council to the Committee are requirements to:

arrange and keep under review the investment of the Fund through one or more properly authorised investment managers, and to

appoint investment managers and external advisers as necessary to support the work of the Committee.

County Treasurer

The County Treasurer is responsible for preparing the financial statements of the Wiltshire Pension Fund, which must show the financial position of the Fund at the accounting date and its income and expenditure for the year.

In preparing the statements, suitable accounting policies must be selected and applied consistently, and judgements and estimates made where necessary that are reasonable and prudent, and comply with the appropriate accounting Code of Practice.

Proper accounting records must be maintained and kept up to date, and all reasonable steps must be taken to prevent and detect fraud and other irregularities. An anti-fraud and corruption and whistle blowing policy was published for the Fund during the year.

District Auditor

The District Auditor is responsible for reporting to the County Council that an audit of the Financial Statements of the Wiltshire Pension Fund has been completed. This report is included within the Statement of Accounts of Wiltshire County Council. Whilst the audit of the Wiltshire Pension Fund is substantially complete, at the time of going to print the Audit Opinion and Certificate had not been issued.

(b) What accounting policies are adopted?

The general principles adopted in compiling the accounts of the Wiltshire Pension Fund follow the recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA). Specifically, they follow the Statement of Recommended Practice on Financial Reports for Pension Schemes and the CIPFA Code of Practice on Local Authority Accounting, updated in 2000, and also with the guidance notes issued on the application of the Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs). Significant points or variations from compliance are detailed below.

Basis of Preparation

The accounts have been prepared on an accruals basis, which means income and expenditure is accounted for as it is earned or incurred, rather than as it is received and paid. The benefits payable and refunds of contributions, however, have been brought into account on the basis of all valid claims approved during the year.

No account is taken of liabilities to pay pensions and other benefits after the year-end. Transfer values, which are those sums paid to, or received from, other pension schemes relating to previous periods of employment, have been brought into account on a cash basis.

Investments

These are shown in the accounts at market value. Reported changes in the market value of investments over the year of account include realised gains or losses arising upon the disposal of investments during the year.

Costs incurred on the acquisition of investments, such as stamp duty and commission, are treated as part of the purchase cost of investments.

Administration Expenses

A proportion of relevant officers' salaries, on-costs and general overheads have been charged to the Fund on the basis of time spent on Fund administration.

Taxation

The Fund is an exempt approved Fund under the Finance Act 1970, and as such, is not liable to UK income tax on investment income, nor capital gains tax. As Wiltshire County Council is the administering authority, VAT input tax is recoverable on all expenditure.

Income earned from investments in stocks and securities in the USA is exempt from US tax, and is not subject to withholding tax. Most tax deducted from income on European investments is also recoverable.

Foreign Currency Transactions

Foreign currency transactions are accounted for on the basis of the equivalent sterling value of the underlying transaction, by applying the relevant exchange rate ruling at the time. Where overseas securities are acquired with currency either previously purchased directly or accruing from the sale of securities, the sterling book cost of the new security will be based on the exchange rate ruling at the time of the purchase of that security. Any profit or loss a rising on currency transactions, either realised or unrealised, will be reflected in the balance sheet.

(b) What accounting policies are adopted? (Continued)

Contributions from employer bodies

For a three-year period commencing 1 April 2001, it is possible for local authority employer bodies to capitalise contributions to pension funds. This is allowable by the Government if such contributions are met from accrued capital receipts, and if ongoing contributions required to be made as a result of the 31 March 1998 actuarial valuation were above certain levels as a result of the deficit position of individual employer sub funds.

Two employer bodies within the Fund took advantage of this dispensation, a total of £31 million additional contributions being paid during the year.

Additional Voluntary Contributions

The accounts of the Fund do not include transactions in respect of additional voluntary contributions (AVCs). These are money purchase arrangements made by individual Scheme members under the umbrella of the Local Government Pension Scheme, to enhance pension benefits. Certain scheme members over the age of fifty may elect to buy service with their AVC funds, and all may do so at their contractual retirement date. Such transactions are included within transfers into the Fund.

Scheme members paid contributions totalling £0.282 million (£0.395 million in 2000-01) into their AVC funds during the year. At the year-end, the value of funds invested on behalf of Scheme members totalled £2.309 million (£2.367 million as at 31 March 2001), made up as follows:

	£ million
Equitable Life Assurance Society	
- With Profits Fund	1.712
- Unit Linked Managed Fund	0.307
- Building Society Fund	0.079
Clerical Medical Funds	
- With Profits Fund	0.019
- Unit Linked Managed Fund	0.005
NPI Funds	
- With Profits Fund	0.126
- Global Care Unit Linked Fund	0.028
- Cash Deposit Fund	0.033

(c) Statement of Accounts

Fund Account

2000-01 £000		2001-02 £000
	Contributions and Benefits	
	Contributions Receivable	
10,389	- from employees	10,938
34,526	- from employers	65,807
7,143	Transfers in	6,730
52,058	**Total Income**	**83,475**
	Benefits Payable	
24,522	- Pensions	25,942
3,618	- Retirement Grants	4,141
415	- Death Benefits	921
	Payments to and on account of leavers	
3,745	- Transfers out	6,792
515	- Contribution refunds	308
495	Administration expenses	538
-	Other expenses	41
33,310	**Total Expenditure**	**38,683**
18,748	**Net Additions From Dealing With Members**	**44,792**
	Return on Investments	
17,632	Investment income	17,089
-67,452	Change in market value of investments	-15,114
-1,112	Investment expenses	-1,298
- 50,932	**Net Returns on Investments**	**677**
- 32,184	**Net Increase in Fund During Year**	**45,469**
652,517	Opening net assets of the Scheme	620,333
620,333	Closing net assets of the Scheme	665,802

(c) Statement of Accounts (Continued)

Net Asset Statement

31.03.01 £000		31.03.02 £000
	Investment Assets	
	Quoted Securities	
53,234	- UK Government fixed interest bonds	58,494
30,115	- Overseas Government fixed interest bonds	13,852
15,779	- UK Government interest linked bonds	39,512
17,509	- Overseas Government index linked bonds	95
291,534	- UK equities	292,255
128,486	- Overseas equities	148,462
	Managed Funds	
14,505	- UK equities	13,095
31,501	- Overseas equities	40,044
-	- UK Government fixed interest bonds	11,949
-	- Overseas Government index linked bonds	12,139
14,214	- UK Property	14,119
	Cash Held on Deposit	
21,361	- Banks and financial institutions	18,584
1,753	- Wiltshire County Council	515
619,991	**Total of Investments Held**	**663,115**
	Net Current Assets	
5,600	Sundry debtors	7,672
43	Cash in hand	-
-5,301	Less sundry creditors	-4,985
342	**Total Net Current Assets**	**2,687**
620,333		**665,802**

(c) Statement of Accounts (Continued)

Analysis of Contributions Receivable & Benefits Payable

2000-01 £000		2000-02 £000
	Contributions Receivable	
	Contributions from Employees	
3,223	- Wiltshire County Council	3,394
6,173	- Other scheduled bodies	6,817
993	- Admitted bodies	727
10,389		**10,938**
	Contributions from Employers	
11,042	- Wiltshire County Council	12,429
20,511	- Other scheduled bodies	51,157
2,973	- Admitted bodies	2,221
34,526		**65,807**
44,915	**Total Contributions Receivable**	**76,745**
	Benefits Payable	
	Pensions Payable	
12,130	- Wiltshire County Council	12,554
11,420	- Other scheduled bodies	12,611
972	- Admitted bodies	777
24,522		**25,942**
	Retirement and Death Grants Payable	
1,571	- Wiltshire County Council	1,567
1,995	- Other scheduled bodies	2,921
467	- Admitted bodies	574
4,033		**5,062**
28,555	**Total Benefits Payable**	**31,004**

(c) Statement of Accounts (Continued)

Analysis of Investment Income

2000-01 £000		2001-02 £000
	Analysis of Investment Income	
	Quoted Securities	
3,324	- UK Government fixed interest bonds	3,388
1,523	- Overseas Government fixed interest bonds	854
307	- UK Government interest linked bonds	545
704	- Overseas Government index linked bonds	599
6,634	- UK equities	7,102
1,780	- Overseas equities	2,066
	Managed Funds	
315	- UK companies	323
159	- Overseas companies	278
661	- UK Property	709
	Cash Held on Deposit	
2,087	- Banks and financial institutions	1,134
138	- Wiltshire County Council	91
17,632		**17,089**

(d) Investment Management Notes

Overall responsibility for investment policy lies with the County Council's Wiltshire Pension Fund Committee, which reports directly to the County Council.

The Committee, for the year of report, had in place an arrangement for the management of the Pension Fund's investments whereby broadly 40% of the Fund was the subject of a relatively low risk approach, whilst 60% of the Fund was managed on a higher risk basis.

During the year, three investment managers were employed by the County Council, carrying out day to day investment transactions within an investment policy set by the Committee on a regular basis.

One manager was employed for the low risk mandate, Schroder Investment Management Limited. The Committee formally met with Schroder once during the year to review investments and agree future policy.

Two managers were employed for the higher risk mandate. Baillie Gifford had approximately 33% of the Fund under management, whilst the remaining 27% was managed by Capital International. The Committee met twice during the year with its higher risk managers to review investments and agree policy.

These arrangements had been in place since 1 April 2000, and represented a modification of previous arrangements whereby only one higher risk manager was employed, for 35% of the Fund. On 26 March 2002, however, the Committee agreed a revised investment strategy, stemming from the 2001 actuarial valuation results. Details of this are provided in the Fund's Statement of Investment Principles in Appendix (e). It is hoped to have these revised arrangements in place by 1 October 2002.

During the year, the managers transacted purchases of £416.6 million, and sales of £360.5 million. The value of assets managed by each manager at 31 March 2002 was as follows:

Schroder	£258.8 million
Baillie Gifford	£217.1 million
Capital International	£186.6 million

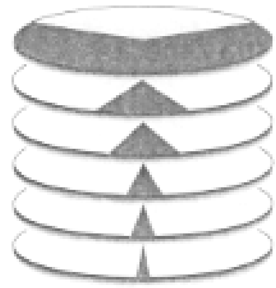
Safe custody of all investments are the responsibility of The Northern Trust Company and as such, are registered in the name of, and are held by, its nominee companies or, alternatively, by overseas agents. The exception at 31 March 2002 was a temporary cash deposit of £0.5 million that was placed with Wiltshire County Council.

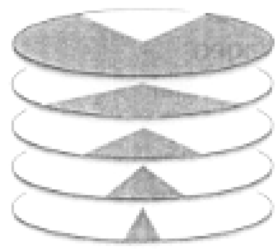
The County Council participates in a securities lending programme administered by Northern Trust. Securities in the beneficial ownership of the Council to a value of £127.5 million (19.2% of the total) were on loan at 31 March 2002. Collateral for these securities is held in a pooled form, the Wiltshire Pension Fund's share (6.7%) representing a value of £142.5 million (111.8%). Income earned from this programme totalled £150,198 in the year.

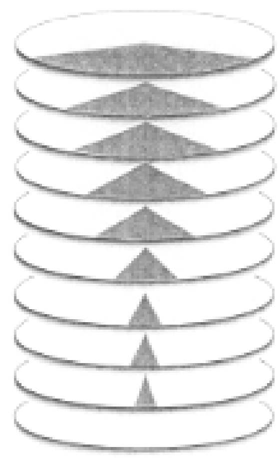
(e) Analysis of Investments

Held at 31 March 2002

	£000	% of Fund total
Geographical analysis		
United Kingdom	448,055	67.6
North America	76,429	11.5
Europe	71,680	10.8
Other overseas	27,239	4.1
Japan	24,533	3.7
Asia, ex Japan	15,179	2.3
	663,115	**100.0**
Sector analysis		
Equities	493,855	74.5
Fixed interest bonds	96,435	14.5
Index linked bonds	39,608	6.0
Cash	19,098	2.9
Property	14,119	2.1
	663,115	**100.0**
Classification of UK equities		
Financials	79,800	27.3
Non-cyclical consumer goods	63,626	21.8
Cyclical services	49,840	17.0
Resources	46,947	16.1
Non-cyclical services	26,169	8.9
Basic industries	10,880	3.7
Utilities	6,595	2.3
Information technology	5,741	2.0
General industrials	2,656	0.9
Cyclical consumer goods	1	0.0
	-	
	292,255	**100.0**



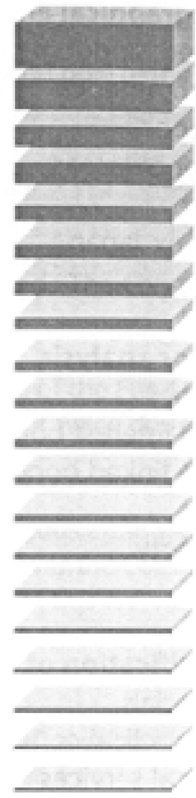




(e) Analysis of Investments

Held at 31 March 2002

	£000	% of Fund total
Twenty largest single equity holdings		
Astra Zeneca	19,239	2.9
Vodafone	18,097	2.7
BP	17,689	2.7
Glaxo SmithKline	16,554	2.5
Royal Bank of Scotland	16,471	2.5
Shell Transport & Trading	13,320	2.0
Barclays	8,958	1.3
HSBC	8,774	1.3
HBOS	8,533	1.3
Diageo	8,405	1.3
Prudential	6,216	0.9
BG Group	5,784	0.9
Imperial Tobacco	4,721	0.7
Lloyds TSB	4,276	0.6
Allied Domecq	3,979	0.6
Signet	3,852	0.6
Dixons	3,399	0.5
Marks & Spencer	3,331	0.5
BT Group	3,321	0.5
Wolseley	3,102	0.5
	178,021	**26.8**



(f) Investment Performance

The County Council subscribes to an investment performance service offered by The WM Company. The Wiltshire Pension Fund Committee receives an annual report from WM, and this is supported by supplementary information provided quarterly to the County Treasurer. Additional information is also received from the custodian, Northern Trust.

For the Fund as a whole, the objective of achieving an annual return of 1.0% above the average return of all funds participating in the WM statistics over five year rolling periods has been set. Individual targets, based on three year rolling periods, are set for the three managers. These are also based on calendar years.

A summary of the Fund's performance compared with the WM All Funds Average is as follows:

	Wilts Fund % pa	WM All Funds % pa	Under/ over % pa
Period to 31 Dec 2001			
- One year	-8.1	-8.9	0.8
- Three years	2.3	2.9	-0.6
- Ten years	10.5	10.8	-0.3

The year 2001 was a second year in succession of negative returns, something that has not occurred since the early 1970s. Relative performance by the Fund overall was positive relative to the benchmark, and this was achieved through above average stock selection in UK and USA equities in particular. Equity stock selection, however, both in the UK and overseas, has hindered relative performance over the longer term, and one of the three managers was subject to formal review at the end of 2000 as a result and put on notice to demonstrate improvement in 2001. Only modest improvement was achieved but, in any event, the recent review of investment management arrangements will result in changes in the investment management structure. It is interesting to note that, compared with the Wiltshire Fund's return of 10.5% per annum over the last ten years, the Retail Price Index has increased by 2.5% per annum, and average earnings by 4.1% per annum.

For further information, performance compared solely with local authority funds is shown based on the Fund's financial year-end. This is as follows:

	Wilts Fund % pa	LA Funds % pa	Under/ over %pa
Period to 31 Mar 2001			
- One year	0.3	-0.5	0.8
- Three years	1.4	2.0	-0.6
- Ten years	10.8	10.9	-0.1

It should be noted that, since the end of the year of report, poor stock market conditions have continued to prevail, with investor confidence affected primarily as a result of corporate accounting scandals and the threat of war with Iraq. The value of the Fund's investments, in line with the stock markets, has shown some volatility and declined to a low point around the end of September 2002. As at 30 September, the value of investments held was of £529.3 million. The value of investments at 31 March 2002 was £663.1 million.

As part of the recently agreed investment strategy review, the County Council will no longer set investment performance targets in relation to a peer group benchmark (that is, the WM All Funds average), but will be applying a benchmark specific to the Fund. Details of this are provided in the Fund's Statement of Investment Principles in Appendix (f).

(g) Scheme Membership

	Contributing employees at 31.03.01	Contributing employees at 31.03.02	Current pensioners at 31.03.01	Current pensioners at 31.03.02	Deferred pensioners at 31.03.01	Deferred pensioners at 31.03.02
County Council	6,886	6,357	3,873	3,822	3,041	3,408
Swindon Borough	4,593	4,883	1,474	1,548	1,277	1,430
District Councils						
Kennet	303	315	253	253	116	132
North Wilts	355	326	280	302	171	187
Salisbury	491	510	401	408	172	188
West Wilts	336	266	315	330	206	264
Police Authority	622	685	94	112	105	115
Fire Authority	90	88	10	11	9	12
Probation*	-	125	-	72	-	43
Magistrates Courts*	-	98	-	61	-	50
FE Colleges	808	829	119	142	196	240
Other bodies	1,164	1,194	305	352	319	366
Total	**15,648**	**15,676**	**7,124**	**7,413**	**5,612**	**6,435**

The term "deferred pensioners" refers to former employees who have not yet reached Pensionable age, and whose benefits have been preserved in the Fund. The relatively large increase in their number over the year is largely due to the outsourcing of certain Services.

** Included within County Council at 31 March 2001. These bodies are to be treated as separate employer bodies for purposes of assessing employer contribution rates with effect from 1 April 2002.*

(h) Analysis of Administration Costs

Breakdown of Wiltshire Pension Fund Administration Costs

	2000-2001 £000	2001-02 £000
Wiltshire County Council Finance Department charges		
Pension benefit administration	310	317
Pension payroll administration	142	128
Pension investment & accounting administration	59	77
Sub total	**511**	**522**
Direct administration costs		
Pension administration	58	85
Investment & accounting administration	8	7
"Bad advice" costs recouped	- 40	-18
Sub total	**26**	**74**
Third party investment management charges		
Investment managers' fees	951	1,143
Custody	94	44
Consultancy fees	25	53
Sub total	**1,070**	**1,240**
Overall total	**1,607**	**1,836**

Statistics

Total costs per scheme member	£56.62	£62.19
Scheme administration costs per scheme member	£17.44	£18.22
Scheme administration staff numbers (FTE)	9.6	8.7
Scheme members per 1 staff FTE	2,957	3,394
Investment administration costs as % of market value	0.18%	0.20%

Comments on variations in expenditure between years

Scheme administration costs were affected by the need to cover the long term absence through illness of a senior member of the Pension Section, and also the provision of maternity cover. Quoted staff numbers do not include the absentees. Investment management fees increased as a result of an increase in the value of funds under management, whilst additional consultancy costs were incurred on an investment strategy review.

Report of the Actuary - Hymans Robertson

As required by regulations, an actuarial valuation of the Fund's assets and liabilities was carried out as at 31 March 2001.

As part of this valuation, we certified the rate of contribution to be paid by each employer during the three year period commencing 1 April 2002. Continuing the trend established following the 1992 valuation, the rate to be paid by employers will, in a number of cases, increase year on year until the results of the 2004 valuation are known.

Like the previous (1998) valuation, a "market related" valuation method has been used. The market related method derives the financial assumptions by considering various average yields in the twelve month period leading up to the valuation date and values the assets of the Fund based on the average market value in this same period. Using average yields and market values builds in an element of smoothing and stability for the future.

The key financial assumptions adopted for this valuation are as follows:

Financial Assumptions	Nominal at Mar 2001 % p.a.	Nominal over Longer Term % p.a.	Real at Mar 2001 % p.a.	Real over Longer Term % p.a.
Investment Return				
- Equities	6.25%	6.75%	3.45%	3.95%
- Bonds	5.25%	5.75%	2.45%	2.95%
- 75% Equities / 25% Bonds	6.00%	6.50%	3.20%	3.70%
Pay Increases	4.30%	4.30%	1.50%	1.50%
Price Inflation/Pension Increases	2.80%	2.80%	-	-

The 2001 valuation revealed that the Fund's assets, which at 31 March 2001 were valued at £629.6 million, were sufficient to meet approximately 80% of the liabilities accrued up to that date. In respect of contributing members, the liabilities include an allowance for the salary increases to the date of retirement.

The level of cover at the 1998 valuation was 78%.

Separate contribution rates were assessed for the employers within the Fund, taking into account their particular circumstances and experience over the previous three years. The rates for both admitted bodies and scheduled bodies were calculated so as to bring them back to a fully funded position over the future working life time of their existing contributors.

The actual rates were certified in the 2001 actuarial valuation report prepared by us in January 2002. Copies of this report are available on request from the Finance Department of Wiltshire County Council. The next valuation of the Fund will be carried out as at 31 March 2004.

W Douglas B Anderson
Fellow of the Institute of Actuaries
Partner
May 2002 G2 2ND

Hymans Robertson
221 West George Street
GLASGOW

Appendices

(a) Schedule of Employer Bodies

(b) Scheme Benefits

(c) Other Publications

(d) Personnel Details

(e) Statement of Investment Principles

(a) Schedule of Employer Bodies

Scheduled Bodies

Wiltshire County Council
Swindon Borough Council
Kennet District Council
North Wiltshire District Council
Salisbury District Council
West Wiltshire District Council
Wiltshire Police Authority
Wiltshire & Swindon Fire Authority
Wiltshire Magistrates Courts Service
Wiltshire Probation Service
Thamesdown Passenger Transport
Blunsdon St Andrews Parish Council
Bradford on Avon Town Council
Calne Town Council
Chippenham Town Council
Corsham Parish Council
Cricklade Town Council
Devizes & Roundway JBC
Devizes Town Council
Downton Parish Council
Haydon Wick Parish Council
Highworth Town Council
Malmesbury Town Council
Marlborough Town Council
Melksham Without Parish Council
Mere Parish Council
Purton Parish Council
Stratton St Margaret Parish Council
Trowbridge Town Council
Westbury Town Council
Wilton Town Council
Wootton Bassett Town Council
New College
Salisbury College
Swindon College
Wiltshire College

Admitted Bodies

Action for Blind People
CIPFA
Connexions
Community First
Cleanaway Ltd
National Schizophrenic Fellowship
North Wilts Leisure Ltd
The Orders of St John Care Trust
Salisbury & South Wilts Museum
Sarsen Housing Association
West Wilts Housing Society
Westlea Housing Association
Wiltshire Archaeological Society
Wiltshire Charities Information Bureau
Wiltshire Community Foundation
United Response

(b) Scheme Benefits

This is a brief description of scheme benefits. In certain cases, restrictions may apply.

Contribution Rate

Employees contribute 6% of pay. The actual cost will be less after taking account of the effect on income tax and national insurance contributions. Employers also make a contribution into the Fund.

Inflation Proofed Benefits

Both retirement and deferred benefits are fully protected against inflation.

Normal Retirement Date

Age 65 with optional retirement between 50 and 65 (see "Early Retirement" below).

On Retirement

An employee receives 1/80th of pensionable pay for each year of membership of the Scheme. A tax free lump sum worth 3/80ths of pensionable pay for each year of membership is also paid.

Guaranteed Benefits

All individual benefits are guaranteed. They do not depend on stock market performance during employment or retirement.

Early Retirement

Employees over the age of 50 who retire in the interests of efficiency or who are made redundant will receive immediate payment of benefits. These may be enhanced. Employees between the age of 50 and 59 who wish to retire voluntarily will need their employer's consent before benefits can be paid.

Leaving Before Retirement

With more than two years service, inflation proof deferred benefits are available, or a transfer of pension rights. With less than two years service, a refund of contributions is available.

Ill Health Retirement

With over five years service, an enhanced pension and tax free lump sum is immediately available. With two to five years service, an unenhanced pension and lump sum is available. With less than a year's service, a refund of contributions will be paid.

Death in Service

A cash lump sum of two years pay payable to dependents. Widow/ers and dependent children's pensions may also be payable.

Administration Costs

No administration costs are borne by members of the Scheme.

(c) Other Publications

As well as this booklet, the County Council produces a number of other publications to support its role as administering authority of the Wiltshire Pension Fund. You can request these from the Pensions Section at County Hall, Trowbridge (01225 713617)

Service and Communication Charter

This publication, primarily for the employer bodies within the Scheme, sets out services provided direct to the employer bodies, to their employees (both current Scheme members and eligible non members) and ex employees (both deferred and current pensioners). It also provides information on the levels of service that can be expected, and the procedure to be followed in the event of complaints being made about the level of service provided.

Guide to the Local Government Pension Scheme

This booklet explains the benefits available to employees and their family of being in the Scheme.

Employers' Guide

This is a loose-leaf format publication specifically aimed at staff within employer bodies who have responsibility for providing information to the Pensions Section in respect of Scheme administration. This will include details of staff within their organisation who are joining the Scheme, and Scheme members who are retiring, or who may have a change in circumstances affecting their pension entitlements.

Starter Packs

These contain information that has to be made available to new employees on their pension entitlements, together with supporting information.

Retirement Packs

These contain information for every new pensioner about their pension and other supporting information.

Newsletters

Occasional newsletters are produced, both for participating scheme members and for pensioners, containing information of interest.

Annual Benefit Statements

Statements are automatically available for all full time Scheme members and those working regular part time hours, and also for deferred pensioners. Statements are also available on request for any Scheme member at any time.

Other Publications

Various leaflets, posters and fact sheets explaining the Scheme and highlighting its benefits are produced. The Pensions Section also has booklets available produced by Clerical Medical and NPI on Additional Voluntary Contributions.

(d) Personnel Details

(a) Wiltshire Pension Fund Committee

County Council Members

Mr Brian Atfield
Mr Patrick Coleman
Mr David Lay (Chairman)
Miss Fleur de Rhe-Philipe
Mr Kevin Wren (Vice Chairman)

Swindon Borough Council Members

Mr Andrew Albinson
Mr Derek Benfield

District Council Member

Mrs Ruth Coleman - North Wilts District Council
Mrs Sue Thorpe - Salisbury District Council (Deputy)

Employee Observers

Mr David Green - Wiltshire County Council
Mr Chris Capel – Swindon Borough Council

(b) County Council Officers

Mike Prince, County Treasurer
Terry Webb, Treasury and Pensions Manager
Alan South, Pensions Team Manager
Mrs Janet Lockwood, Pensions Support Team Manager
Steve Memmott, Chief Auditor

(c) Investment Manager Representatives

Gerry Aherne and Lyndon Bolton, Schroder Investment Management Ltd
Shona Casely and Nigel Morecroft, Baillie Gifford & Co
Peter Armitage, Mark Brett and Stephen Gosztony, Capital International

(d) Actuary

Douglas Anderson, Hymans Robertson

(e) Investment Consultant

George Henshilwood, Hymans Robertson

(e) Statement of Investment Principles

Introductory Comment

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 required LGPS administering authorities to produce Statements of Investment Principles (SIPs) by 3 July 2000. This date was also the one by which trust-based pension schemes had to extend their existing SIPs under parallel regulations issued under the Pensions Act 1995. These required Statements to cover the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. A summary of policy on the exercise of voting rights attaching to investments must also be included.

SIPs for trust-based schemes were already required to include policy on:

(a) the types of investments to be held,
(b) the balance between different types of investments,
(c) risk,
(d) the expected returns on investments, and
(e) the realisation of investments.

The SIP for the Wiltshire Pension Fund has been included in the two previous annual reports. Whilst the SIP included in the 2000-01 annual report applied in 2001-02, it has been necessary to update it to take account of the revised investment strategy agreed for the Fund by the Wiltshire Pension Fund Committee on 26 March 2002.

In addition, the Government introduced a voluntary 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 sets out ten principles that are intended to improve the investment management of pension funds. In turn, the Department for Transport, Local Government and the Regions (DTLR), which administers the regulations for the LGPS, is intending to issue a new regulation which requires administering authorities to publish the extent of their compliance with these ten principles. This is to be achieved by inclusion of the details of compliance within local authority funds' SIPs.

As a result, the Wiltshire Pension Fund Committee is intending to adopt a revised SIP at its meeting on 22 July 2002, and, rather than include the existing SIP in this annual report, it has been decided to include the new one. One of the disadvantages of the update is that the SIP has now substantially increased in size. It does, however, provide a comprehensive description of the thinking behind the way in which the investments of the Fund are to be managed in future.

The content is as follows:

Mike Prince
County Treasurer

Background to the 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 Department for Transport, Local Government & the Regions (DLTR). 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 County 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. These 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.

A Fund with a higher number of contributors relative to pensioners will tend to generate annual cash surpluses, which can be invested. Conversely, a Fund with a higher proportion of pensioners may well be in cash deficit. It may therefore need to generate cash to pay its pensioners through the disposal of investments.

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 and above the rate of both wage and price inflation, over the long term.

In setting investment policy, specific factors must be borne in mind. These include:

(a) The long term cost of meeting pension liabilities arising from future service of Scheme members. This will be affected by wage inflation to the point of retirement, and price inflation thereafter.

(b) The solvency position of the Fund. Does a deficit of assets over liabilities in respect of past service have to be recovered?

(c) The maturity position of the Fund. How liquid is the Fund? Is it accruing cash, or does it have to realise investments to pay pensioners?

(d) The administering authority's attitude to investment risk.

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. These are presently subject to review. The current restrictions are as follows:

(a) No more than 10% deposited with a single bank (other than the National Savings Bank).

(b) No more than 10% invested in unlisted securities.

(c) No more than 10% in a single holding (except unit trusts).

(d) No more than 25% in unit trusts or other collective investment schemes managed by any one body.

(e) No more than 25% in a single insurance contract.

Regulations further state that administering authorities must obtain and consider proper advice on their investments, and formulate their investment policy with a view to:

(a) the advisability of investing fund money in a wide variety of investments, and

(b) the suitability of particular investments and types of investments.

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 County Treasurer. It appoints external investment managers to implement investment policy, and 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

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, and sterling and overseas cash deposits. The Fund may also invest in futures and options, and forward currency transactions. The Fund does not invest directly in property and, for the present, chooses not to invest in private equity and venture capital and hedge funds. In respect of the latter in particular, the Committee has concerns on the level of transparency, their appropriateness as a pension fund asset, unreliability of past performance data, and high fees.

The Committee places specific constraints on the use of futures and options, and forward currency transactions. The key features of these limits are as follows:

(a) the Fund must not be geared at any time (more than 100% invested),

(b) the overall exposure to futures and options on indices should not exceed 10% by value of the Fund,

(c) the overall exposure to options on individual stocks must not exceed 5% by value of the Fund, and

(d) that forward currency transactions be restricted to 100% of the value of the relevant overseas portfolio.

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 for the Fund on 26 March 2002 (see "Overall Investment Strategy"). In broad terms, the result is that the Fund is to be invested 70% in equities, 20% in bonds and 10% in property.

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, and in particular, a 70% limit on global equity investment.

Further control on the Fund is imposed by employing three active equity managers of differing, but complementary styles.

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.

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. Assumed real returns over a ten-year period are shown below, based on advice from independent investment consultants as at 31 March 2001. The likely range of the expected returns over this period is shown on a scale of 1 to

4, 1 being the narrowest range and 4 the widest range. This scale can also be taken as an indication of likely volatility of returns in individual years, and so also acts as a risk indicator.

	% pa 10 years	Size of Range
UK Equities	4.5	4
Overseas Equities	4.5	4
UK Gilts	2.2	2
Corporate Bonds	2.8	3
UK Index Linked	2.0	2
Property	3.5	3
Cash	1.0	1

Realisation of Investments

The Fund does not currently need to realise investments to meet its pension liabilities, and it is projected that this will be the case for a number of years.

Corporate Governance

The Council 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 subscribing to the Pensions & Investment Research Consultants Limited (PIRC) Corporate Governance Service, and requires its investment managers to follow PIRC voting recommendations.

It is also an active member of the Local Authorities Pension Fund Forum (LAPFF), to enable it to act with other local authorities on corporate governance issues.

Socially Responsible Investment

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

As such, the County Council also believes it 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 County Council 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 County Council primarily uses its membership of LAPFF to effect this policy.

Other Matters

The County Council participates in a securities lending programme managed by its global custodian. It will also underwrite, or sub-underwrite, new issues where the investment managers are prepared to hold the relevant shares.

Current Investment Strategy

Solvency Position of the Wiltshire Pension Fund

The results of the actuarial valuation of the Fund as at 31 March 2001 showed that Fund liabilities totalled £785.6 million, whilst assets stood at £629.6 million. The Fund therefore had a deficit of assets of £156.0 million, or expressed another way, had a solvency level of 80%. This compared with a solvency position at 31 March 1998 of 78%.

The slight increase to 80% can be attributed to a number of factors, notably lower than assumed earnings and price inflation, and the high contribution rates already being paid by the employer bodies. These factors, however, were heavily offset by the assumed increased life expectancy of scheme members.

The deficit has been addressed by the implementation of stepped increases in employer contribution rates. These increases commenced in 1993-94 following a contribution holiday taken when the requirement to 100% fund pension liabilities was temporarily reduced for a three-year period to 75%.

The required common contribution rate to achieve 100% solvency has been assessed at 345% as a result of the 2001 valuation, this being made up of an ongoing contribution rate of 225%, and a past service adjustment rate of 120%. This latter rate is intended to eradicate the deficit over the future average working lifetime of contributors to the Scheme, some 14 years.

Maturity Position of the Wiltshire Fund

A comparison of the liability position of the Fund between the 1998 and 2001 valuation is shown below:

	1998		2001	
	£m	%	£m	%
Contributors	266	46	355	45
Pensioners	267	46	327	42
Deferred pensioners	48	8	104	13

The above figures show that no major shift took place during the inter-valuation period, although the increase in deferred pensioners reflects the increase in outsourcing of local authority services.

In investing the fund, account has to be taken of when pension liabilities come into payment. In summary:

(a) For pensions currently payable, cash is needed now, the pension liability is known, and pensions in payment will increase in line with inflation (42% of the above liabilities).

(b) For older contributing scheme members, cash will be needed soon and the pension liability can be forecast with reasonable accuracy. This is because there is only a few years left for the pension benefits to attract increases in line with earnings, and for pensions in payment to increase in line with inflation from retirement.

(c) For scheme members who have left LGPS employment but retained their pension benefits in the fund, the pension liability is known both in terms of timing of payment and amount, subject to the benefits being maintained in line with inflation (13% of the above liabilities).

(d) For younger contributing scheme members, the eventual pension liability is less certain because of the longer period over which earnings have to grow, and cash is not needed to pay pensions for a correspondingly longer period.

Where both the amount of pension and timing of payment is known with some certainty, the lowest risk option is to match these liabilities by investing in bonds. For the liabilities that are more open-ended in potential value and which are not due to come into payment in the near to medium term, equities are an appropriate match.

Equities, however, can show price volatility. For instance, in a period from around March 2000 to September 2001, equity market valuations fell by around one third. As the actuary values the pension fund every three years, this can be a problem if the fund is heavily invested in equities. It can cause volatility in employer contribution rates.

It is therefore appropriate to consider asset classes other than bonds that might help offset this volatility risk caused by investing in quoted equities, whilst still allowing investments overall to grow over the longer term. These include property, private equity, venture capital and hedge funds.

Account also needs to be taken of the high level of employer contributions needing to be paid into the Fund. It is anticipated that the Fund will remain in a cash surplus position on its annual revenue account for several years ahead. This gives the Fund the characteristics of a more immature fund than it actually is, and the Fund is therefore under no immediate pressure to realise investments, in order to meet its current pension liabilities.

Overall Investment Strategy

As indicated above, although the Fund is maturing, cash flow is unlikely to be a problem over the next few years. The Committee therefore feels it can adopt a relatively long-term view. The Fund, however, has a deficit of assets against liabilities. As a general rule, the weaker the financial position of a Fund, the less risk the trustees can afford to adopt.

It should also be noted that the higher the performance target, and the shorter the period over which performance is measured, the higher the risk the investment manager must take to succeed.

Consequently, the County Council has set overall investment performance objectives that reflect:

(a) the makeup of the liabilities of the Fund,

(b) the need to assist in the recovery of the deficit position,

(c) the strong cash flow position (there is no need for the forced selling of investments to meet pension liabilities),

(d) a reasonably long time frame for measurement of performance, and

(e) the need to maximise the real rate of positive return over the long term, subject to not exposing the Fund to unreasonable risks.

The liability profile of the Fund as at 31 March 2001 points to a 50/50 bond equity split. The Fund's strong positive cash flow, however, plus the Committee's desire to lower, or at least cap, the level of employer contributions without exposing the Fund to undue risk, results in the adoption of an overall strategic benchmark of 25% bonds and 75% equities.

This is further broken down as follows:

UK equities	40%
Overseas equities	30%
Bonds	20%
Property	10%

Property, which contributes a reduction in overall risk through diversification and increases the income flow, is regarded as a proxy for both bonds and equities. An overall exposure of 10% is therefore taken as being divided equally between the two major asset classes of bonds and equities.

In respect of equities, greater investment opportunities exist world wide at both sector and stock levels, and the UK indices are very stock focused, with only twelve stocks making up half of the FTSE All Share index. A higher weighting is therefore given to overseas markets compared with the position adopted by the average fund.

In respect of overseas equities, the weighting given to each market is based on GDP, rather than market capitalisation share, as the latter is too concentrated in North America (over 60%). The overseas benchmark is therefore weighted:

North America	35%
Europe (ex UK)	35%
Japan	12%
Pacific (ex Japan)	12%
Emerging Markets	6%

Private equity, venture capital and hedge funds, and the use of a tactical asset allocation overlay manager to re-balance the Fund have been considered. A decision on utilising these has, however, been deferred for the present.

Investment Management Mandates

The table below sets out details of the five mandates:

Mandates	Equity 1	Equity 2	Equity 3	Bonds	Property	Total
Share of Fund	25%	25%	20%	20%	10%	100%
Benchmarks						
Indices	%	%	%	%	%	%
FTSE UK All Share	70.0	50.0	50.0			40.0
FTSE N America	10.5	17.5	17.5			10.5
FTSE Europe (ex UK)	10.5	17.5	17.5			10.5
FTSE Japan	3.6	6.0	6.0			3.6
FTSE Pacific (ex Japan)	3.6	6.0	6.0			3.6
MSCI Emerging Markets	1.8	3.0	3.0			1.8
FTSE UK Govt All Stocks				80.0		16.0
JPM Global Govt (ex UK)				20.0		4.0
IPD Monthly					100.0	10.0
Performance						
Target (net of fees, pa)	+1.0%	+1.0%	+1.0%	+0.75%	+0.4%	
Period (rolling years)	Five	Five	Three	Three	Five	

Note: The bond benchmark is to be refined following discussion with the appointed manager, and will cater for both sterling non-gilt and index-linked gilt exposure.

These benchmarks result in the desired overall asset allocation of 40% UK equities and 30% overseas equities, 20% bonds and 10% property. The overall out performance objective for the equity mandates recognises a need to add value at the stock selection level at the same time as creating diversification. This is achieved by sharing the three mandates between differing types and styles of investment manager, two individual managers (equity mandate 1 and 2) and a manager of managers mandate (equity mandate 3).

Timeframe for Investment Managers' Targets

Three year targets are generally adopted 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 manager's style, or for specific asset classes. Five year rolling periods, rather than three year, are therefore adopted in respect of the two segregated equity mandates and the property mandate.

Review and Policy

Whilst the Committee will allow full discretion to its investment managers within the above constraints, it will carry out a review of transactions and confirms policy ranges (sector allocations) where applicable on a quarterly basis for each of its managers.

This is to be carried out either by the Committee, which meets four times a year, meeting directly with its investment managers (a minimum of once a year each) or via interim meetings. These will be held between the Chairman and/or Vice Chairman of the Committee, the County Treasurer and each of the managers. The results of these interim meetings will be reported to Committee members.

The Committee formally monitors the investment performance of the managers against their individual performance targets on an annual basis.

At each meeting, the Committee will continue to review the investment position of the Fund on a consolidated basis, from information provided by the County Council's global custodian, The Northern Trust Company.

In respect of overall strategy, the Committee will use the triennial actuarial valuation of the Fund to carry out a formal review. This is because updated information will be available on the make-up of Fund liabilities, and also the solvency position of the Fund. This is key information in terms of making any changes to the overall strategic benchmark.

In addition, an annual check will be 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 opportunity will also be taken at this stage to review the actual overall asset allocation of the Fund compared with the strategic benchmark position, and to make any changes as necessary between the individual mandates. This will probably be achieved by temporary alteration to the apportionment of new money accruing to the Fund between managers.

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 because this is generally accepted practice and is easily understood. A performance related fee basis will be considered, however, if it is believed to be in the overall financial interests of the Fund.

For investment advisory services, a fixed fee basis is applied.

Compliance with Government (Myners) Investment Principles

The extent of the Fund's compliance with the ten investment principles set out in the Government's Voluntary Code, issued in October 2002, is set out in the supplement to this document.

The Committee believes that these principles are complied with in broad terms.

Supplement

Compliance with Investment Principles for Defined Benefit Schemes

1. Effective decision-making

Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.

It is good practice for trustee boards to have an investment sub committee to provide the appropriate focus.

Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.

Response

The Wiltshire Pension Fund Committee is responsible for all aspects of the administration of the Local Government Pension Scheme, including the arrangements for the investment management of the Wiltshire Pension Fund. Its terms of reference are set out in the Constitution of Wiltshire County Council. The Committee agrees overall investment strategy and policy, but delegates day to day decision making on investment activity to its investment managers. The County Treasurer may agree variations to investment policy, subject to reporting these to members of the Committee.

The Committee meets on a quarterly basis, and receives advice from the County Treasurer and its independent investment consultant at each meeting. It also meets with its investment managers on a regular basis, a minimum of once a year. In reaching decisions on the most appropriate investment strategy and investment management arrangements for the Fund, the Committee is provided with advice and training to enable it to understand the issues involved. Additional independent advice is sought for major strategic reviews.

Training is supplemented by a handbook that is issued to each member of the Committee, this being regularly updated. Committee papers are circulated to members at least a week in advance of meetings to allow time for them to be studied.

The County Treasurer, as indicated, supports the Committee in its work. In practice, as well as the County Treasurer himself, the County Council's Treasury and Pensions Manager and Fund Accounting Manager also support the Committee in its investment responsibilities. The Treasury and Pensions Manager has effective responsibility for the day to day management of the Fund.

Members of the Committee receive travelling and subsistence expenses, whilst the Chairman of the Committee receives a special responsibility allowance.

As the Committee is only eight in number of voting representatives, it is considered focussed enough in its own right not to warrant the formation of an investment sub committee.

The Committee has received advice on, and is well aware of, its role and responsibilities. No formal business plan is prepared. The Committee does, however, receive and approve an annual budget in respect of the administration of the Wiltshire Pension Fund and this reflects planned activity. This includes provision for items such as trustee training as well as other services to enable the Committee to carry out its role (such as investment performance and risk measurement).

2. Clear objectives

Trustees should set out an overall investment objective for the fund that:

> represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and
>
> takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.

Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.

Response

The Committee considered its current investment strategy as a result of the actuarial valuation of the Fund as at 31 March 2001. This exercise specifically took account of the makeup of the liabilities of the Fund as at that date, the Fund's solvency position, and its projected net contribution position. An investment strategy was agreed that resulted in a specific strategic benchmark being set for the Fund. This benchmark reflects these various factors and, in particular, an objective of contributing to the achievement of full solvency for the Fund from a deficit position over a period of approximately 14 years, the future average service period of current contributors to the Fund.

In establishing the strategic benchmark, a manager structure has been selected to assist in the overall control of risk for the Fund, in particular, three active global equity mandates for differing styles of manager. A specific out-performance target against appropriate market indices has been set for each specialist investment manager to achieve.

In arriving at its decisions, the Committee took advice from two separate independent investment consultants, to enable it to receive a balance of views on overall risk, on asset classes and on manager structures.

3. Focus on asset allocation

Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the fund's investment objective.

Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity.

Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds.

Response

The Committee, in considering the factors explained in 2 above in arriving at a strategic benchmark for the Fund, settled on a broad equity/bond split of 75/25. In reaching this decision, it was felt unnecessary to undertake a detailed asset/liability study of the Fund, on the basis of a projected high positive cash flow of the Fund arising from the high employers' contribution rate. A study is planned once this position changes as the Fund moves back to full solvency.

Within the broad strategic split, the Committee gave consideration to all major asset classes, including private equity and venture capital, and hedge funds, with the assistance of independent advice. Whilst it has decided not to invest in these asset classes at present, it intends to keep the position under regular review. This is with the aim of possibly diverting new money accruing to the Fund into these asset classes at a later date, if it is perceived to be in the Fund's interests. The Committee does, however, currently have reservations about investing in hedge funds, on the grounds of their lack of transparency, unreliability of past performance data and high fees.

The Committee recognises that its overall strategic benchmark may lead to some volatility in performance over the shorter term, but recognises the long-term nature of pension fund investment. Its primary concern is to suppress short-term volatility in employer body contribution rates, and considers that there is flexibility available to it through adjusting the period over which the past service deficit of the Fund is recovered.

4. Expert advice

Contracts for actuarial services and investment advice should be opened to separate competition.

The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.

Response

Whilst both services are supplied by the same firm, the appointments of independent investment consultant and actuary were made at differing times. Different individuals within the firm deliver the respective services.

A separate tender exercise was used for the appointment of a consultant to assist in the procurement of an independent global custodian for the Fund, and again for an additional independent adviser to assist on the latest review of investment strategy for the Fund.

The Fund is prepared to pay other than the lowest tendered fee to ensure that it receives the best quality of advice. This was the case in both of the appointment of the consultant for the custody brief and the additional independent advisor for the strategy review.

5. Explicit mandates

Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:

- An objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances;

- The manager's approach in attempting to achieve the objective; and

- Clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.

The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund.

Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy - whether through direct financial incentives or otherwise - for ensuring that these costs are properly controlled without jeopardising the fund's other objectives.

Trustees should not, without good reason, permit soft commissions to be paid in respect of their fund's transactions.

Response

The Committee is of the view that having a written mandate reflecting an agreement between it and its investment managers setting out specific risk parameters and describing a manager's approach to achieving objectives is too prescriptive and potentially restrictive for good active managers.

A clearly defined performance objective over an appropriate time frame against indices discussed and agreed with the appointed managers should suffice. Thereafter, the critical action is to ensure a regular and effective dialogue between the Fund's representatives and the investment managers to ensure a continuing understanding on both sides of what is required and what is being delivered.

The Committee only enters into investment management agreements that provide for instant termination.

The Committee recognises that what it seeks is the achievement of performance objectives, net of transactions costs and management fees. This is of over-riding concern and it does not regard it as of sufficient priority to deflect its focus from this objective onto the monitoring of transaction costs that, in relation to potential returns, are relatively insignificant. The Committee believes that the Fund's investment managers have sufficient incentive to control these costs themselves. Nevertheless, the Committee does receive regular reports from its global custodian on transaction costs to ensure that these appear reasonable and will seek reassurances or explanations if necessary.

For the reasons stated above, the Committee has no policy of restricting the payment of soft commissions. It does, however, expect its investment managers to report on these with justifications for their use where they arise.

6. Activism

The mandate and trust deed should incorporate the principle of the US Department of Labor Interpretative Bulletin on activism.

Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.

Response

The Committee is of the view that the primary duty of its equity investment managers is to identify and invest in companies that will generate returns for the Fund, and avoid those that do not. It is the primary duty of the management of those companies to generate the returns for shareholders, subject to recognising the interests of other stakeholders in those companies.

The Committee does not believe it is incumbent on its managers to set out in the investment management agreement the circumstances in which they will intervene in a company, the approach they will use in doing so, and how they measure the effectiveness of this strategy. It will, however, expect its investment managers in the normal course of their investment research to make a judgement on whether or not it is in the Fund's interest to intervene in a company or to dispose of its shares.

Rather, the Committee expects its managers' to exercise proxy votes in line with the Fund's own corporate governance policy, unless the managers believe it is in the Fund's fiduciary interests not to do so. In such situations, the Committee will require justification and explanation from its managers for adopting a different voting stance.

The Fund also has a policy of collaboration of other local authority funds on corporate governance issues through its membership of the Local Authority Pension Fund Forum, and it is primarily through this body that the Fund expects to directly exercise engagement with the companies in which it invests.

7. Appropriate benchmarks

Trustees should:

explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow suboptimal investment strategies;

if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection;

consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and

where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.

Response

The choice of indices in constructing the Fund benchmark has been undertaken with the benefit of advice from independent investment advisors, both of whom have investment management experience. The intention is that these will be confirmed with the investment managers appointed to the relevant mandates.

The major risk control for the Fund is considered to be at the strategic benchmark level, with additional risk control being applied through the recruitment of three active global equity managers possessing complementary styles. In these circumstances, it is not felt to be appropriate to impose further constraints through formal tracking error limits in addition to requiring the relevant out-performance margin over the benchmark.

The managers are therefore encouraged to pursue genuinely active strategies and the Committee anticipates some volatility from their equity managers over the shorter term. It is for this reason that, in respect of the two segregated equity mandates, five year rolling periods, rather than three year, have been chosen for performance targets.

In respect of the global bond mandate, the detailed construction of the benchmark will be discussed and agreed with the appointed manager.

The actual asset allocation position of the Fund against the overall strategic benchmark will be formally reviewed on an annual basis.

8. Performance measurement

Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees.

They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.

Response

The Fund currently employs the services of two investment performance measurement services. These are both independent of the investment managers, and provide detailed analysis from monthly periods to ten years and more.

The Committee will also review the effectiveness of its strategic benchmark for the Fund, the choice of detailed benchmarks (including indices), its chosen investment management arrangements, and selection of investment managers, on a formal basis at three yearly intervals, to coincide with the actuarial valuation results of the Fund. In doing so, a judgement on the quality of external advice it has received will be made.

The Committee anticipates that the effectiveness of its arrangements for the benefit of the Fund will also be the subject of external inspection.

9. Transparency

A strengthened Statement of Investment Principles should set out:

who is taking which decisions and why this structure has been selected;

the fund's investment objective;

the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;

the mandates given to all advisers and managers; and

the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.

Response

The Fund's Statement of Investment Principles is believed to take account of all of the above requirements.

10. Regular reporting

Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers.

They should send key information from these annually to fund members, including an explanation of why the fund has chosen to depart from any of these principles.

Response

The Fund's Statement of Investment Principles is reproduced annually within the Fund's Annual Report and Financial Statements. The Annual Report includes information on the investment performance of the Fund.

This is made available to the main stakeholders in the Fund, the employer bodies. It is also available on request to pension scheme members, and copies are placed on information displays at the offices of all the main employer bodies.