THE WILTSHIRE PENSION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS 2003-04

Contents

PHOTOGRAPHS OF CHAIRMAN & TREASURER

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 2004. 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 former employees of these organisations. Teachers, uniformed police and fire personnel are not included as those groups have separate pension arrangements.

In addition to reporting on the accounts, information has been included on the Fund's investments and pension provision.

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.

Trustees' Report for Wiltshire Pension Fund Annual Report 2003-04

Introduction

This is the third annual report by the Wiltshire Pension Fund Committee under the new executive arrangements of the County Council. The Committee's powers in respect of management of the Fund are delegated by the full County Council.

This year the implementation of the Myners' Report recommendations has dominated Committee's business alongside the more regular items like the admission of new employer bodies, responses to Government consultations on pension matters, and on-going investment performance. The Committee receives a presentation from one or more of the investment managers at each of its meetings.

The Government (Myners) Investment Principles lay down certain requirements for trustees in relation to shareholder activism. This led to a review of our Corporate Governance and Corporate Social Responsibility policy. The review, which considered other approaches and providers, eventually endorsed the continued membership of the Local Authority Pension Fund Forum (LAPFF), which consists of 26 funds (£40 billion of assets), and the continued purchase of the PIRC Corporate Governance Service, which ensures that our direct equity managers have a consistent voting policy.

With 70% of the Fund invested in equities, the Fund's value is sensitive to equity market movements. This year the stock market has recovered some of the losses that have occurred over the past 3 years. The FTSE100 Index has risen 33% from an opening position of 3,287 as the year started, to 4,386 on 31 March 2004. This is, of course very significant for the scheme's funding position.

Wiltshire Pension Fund Valuations

The funding level of the Wiltshire Pension Fund continues to be an area of concern. The main reasons for the funding problems are increased longevity, poor investment returns and the effect of the contribution holiday taken in the early 1990s. Similar problems can be found in many other Local Government Pension Funds.

The results of the Interim Valuation that was carried out as at 31 March 2003 were received in July 2003. The overall message at the time was that the funding position of the whole Wiltshire Fund (76%) was not as bad as had been anticipated, compared with an 80% funding level in 2001, but there are likely to be significant variations between employer bodies within that. Larger employers who have put in significant cash injections from capital receipts are likely to fair better than smaller employers who have not done so.

The 2004 Triennial Valuation of the Wiltshire Pension Fund is currently underway. The results are expected to be published in October 2004.

Investment and Funding Strategy

Moving forward from the results of the Triennial Valuation, it is likely that some Asset-Liability work will be undertaken. At this time it seems pertinent to put increased emphasis on matching assets more closely with the time scales of liabilities of the Fund's constituent employer bodies, the aim being to reduce the volatility of employer contributions. This may lead to a refinement of the current investment strategy.

This work will also overlap with the Funding Strategy Statement, which the Fund is required to produce by 31 March 2005 under Local Government Pension Scheme Regulations. The purpose of this statement is to:

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

Employers will be consulted about these matters during the autumn of 2004.

Investment Performance

The investment returns over the year have been disappointing, with a gross return of 23.5% compared to the consolidated benchmark of 24.1%. Compared to the managers' performance targets, which are more stretching, returns are down by 1.5%. We continue to monitor managers' activity and consult with them to understand the reasons for this underperformance.

Compared to other Local Authority funds, the Wiltshire Fund achieved 49th out of 85 local authority funds within the WM Local Authority Annual League tables, which is an improvement on 2002-03.

It is important to remember that correct asset allocation decisions have much more influence on long-term performance than manager return. One of the purposes of the forthcoming review is to consider if the current benchmark is still optimal.

We continue to look for opportunities to provide added value for the Fund. A Commission Recapture programme has been introduced during 2003-04, which is anticipated to bring in income of approximately £0.1 million per annum.

FRS17

This year, employers reporting under the Chartered Institute of Public Finance and Accountancy (CIPFA) Statement of Recommended Practice have been required to provide full disclosure of their Financial Reporting Standard 17 (FRS17) position within their accounts for the first time. In summary, the FRS17 requires organisations to show their pensions liabilities relative to the pensions assets (i.e. investments), as well as their actual contributions into pension schemes, in their annual accounts.

The County Treasurer's staff have worked together with Hymans Robertson to provide FRS17 information promptly to each employer body for inclusion in their accounts. The employer bodies making up the significant majority of the Fund have 31 March year-ends, so we will be able to gain an indication of movements in the relative health of the Fund from year to year using FRS17 data between the triennial valuations.

The Wiltshire Pension Fund Web Site

The Wiltshire Pension Fund web site, www.wiltshirepensionfund.org, continues to be developed and updated, providing useful information for both members and pensioners, as well as employers, who can contact experienced staff by email with queries and requests for information.

Update on the Local Government Pension Scheme Stock-Take

Following on from the proposals in Phase 1 of the Stock-take which were implemented in April 2004, the Office of the Deputy Prime Minister (ODPM) issued a consultation document on the proposed changes in Phase 2.

The proposals include:

- the change to the current early retirement rules with the removal of the 'Rule of 85' for all new Members after April 2005;
- an 'equitable' phasing out of the 'Rule 85' for existing members;
- increasing the earliest age when benefits may be paid (other then on ill health grounds) from 50 to 55;
- flexible retirement dates / incentives to remain in employment;
- simplifying the LGPS Regulatory Framework;
- changing Partners' benefits;

The context of the consultation is that the LGPS cannot remain as it is. The increasing cost of the scheme, due largely to reducing returns, increased longevity, and contribution holidays have led to increasing employers' costs. However, the Government does remain committed to maintaining a final salary scheme which is both affordable and sustainable.

One of the key purposes of the Stock-take is to reduce the cost on employers. However, any reductions in benefits and potential higher costs for employees could meet with some resistance. It should also be noted that some of the savings that might be achieved from the implementation of Phase 2 cannot yet be accurately quantified and may cause upward pressure on pay levels.

The Committee welcomes the debate on how best to secure the future of the Scheme by making it more flexible and attractive, but is committed, along with the Society of County Treasurers and the Local Authority Pension Fund Forum, to ensure that Members get a fair deal at the same time as reducing costs as far as possible.

Conclusion

This is an important time for the Fund with the Triennial Valuation and associated follow up work, as well as the national review of the LGPS. The Committee is dedicated to achieving the most economic, efficient and effective arrangements for the benefit for all employer bodies.

David Lay, Chairman

On behalf of the Wiltshire Pension Fund Committee

Financial Statements

(a) Statement of Responsibilities

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(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 is a representative of the admitted bodies and two observers representing staff interests. Details of the membership of the Committee in 2003-04 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 have been implemented for the Fund.

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 2003, 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.

Investment management expenses are based on the quarter end market value of the investments held. The fees paid are determined by the agreed fee scales for each individual manager.

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 arising on currency transactions, either realised or unrealised, will be reflected in the balance sheet.

Contributions from employer bodies

For a three-year period commencing 1 April 2001, it was 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.

Four employer bodies within the Fund took advantage of this dispensation, a total of £15.4 million additional contributions being paid during 2003-04.

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 £0.248 million (£0.380 million in 2002-03) into their AVC funds during the year. At the year-end, the value of funds invested on behalf of Scheme members totalled £2.368 million (£1.995 million as at 31 March 2003), made up as follows:

	£ million
Equitable Life Assurance Society	
- With Profits Fund	1.354
- Unit Linked Managed Fund	0.282
- Building Society Fund	0.071
Clerical Medical Funds	
- With Profits Fund	0.063
- Unit Linked Managed Fund	0.365
NPI Funds	
- Managed Fund	0.017
- With Profits Fund	0.135
- Global Care Unit Linked Fund	0.037
- Cash Deposit Fund	0.044

Related Party Transactions

Related parties to the Wiltshire Pension Fund include all the Admitted Bodies within the Fund (see Appendix (a)), members of the Wiltshire Pension Fund Committee and the County Treasurer. There have been no financial transactions between any of these parties and the Fund apart from the routine contributions and benefits payable that are defined by statutory regulation and are therefore not within the direct control of any party. All these transactions are included within the accounting statements given in the following pages.

(c) Statement of Accounts

FUND ACCOUNT

2002-03 £000		2003-04 £000
	CONTRIBUTIONS AND BENEFITS	
	Contributions receivable	
11,687	- from employees	12,961
43,874	- from employers	56,226
8,503	Transfers in	7,863
64,064	**Total income**	**77,050**
	Benefits payable	
27,570	- Pensions	28,713
4,064	- Retirement grants	3,970
863	- Death benefits	613
	Payments to and on account of leavers	
7,404	- Transfers out	5,182
313	- Contribution refunds	713
555	Administration expenses	573
40,769	**Total expenditure**	**39,764**
23,295	**Net additions from dealings with members**	**37,286**
	RETURN ON INVESTMENTS	
16,961	Investment income	17,025
-158,024	Change in market value of investments	112,153
-1,529	Investment expenses	-1,771
-142,592	**Net returns on investments**	**127,407**
-119,297	**NET INCREASE IN FUND DURING YEAR**	**164,693**
665,802	Opening net assets of the Scheme	546,505
546,505	Closing net assets of the Scheme	711,198

(c) Statement of Accounts (continued)

NET ASSET STATEMENT

31.03.03 £000		31.03.04 £000
	INVESTMENT ASSETS	
	Quoted securities	
* 11,940	- UK Fixed interest Government bonds	20,438
* 52,193	- UK Fixed Interest Corporate bonds	63,060
18,491	- Overseas fixed interest Government bonds	18,369
4,375	- Overseas fixed interest Corporate bonds	0
20,020	- UK index linked Government bonds	21,634
1,360	- UK index linked Corporate bonds	1,468
4,678	- Overseas index linked Government bonds	3,104
153,365	- UK equities	205,080
90,016	- Overseas equities	122,626
	Managed funds	
58,021	- UK equities	80,800
62,413	- Overseas equities	84,883
-	- UK Fixed Interest Corporate bonds	-
-	- Overseas fixed interest Corporate bonds	-
42,605	- UK property	67,239
	Cash held on deposit	
23,565	- Sterling Cash	20,329
3,832	- Overseas Cash	4,271
546,874	**Total of investments held**	**713,301**
	NET CURRENT ASSETS	
4,340	Sundry debtors	3,858
-4,709	Less Sundry creditors	-5,961
-369	**Total net current assets**	**-2,103**
546,505		**711,198**

* Restatement of opening balances to reflect incorrect categorisation of assets

ANALYSIS OF CONTRIBUTIONS RECEIVABLE & BENEFITS PAYABLE

2002-03 £000		2003-04 £000
	CONTRIBUTIONS RECEIVABLE	
	Contributions from employees	
3,693	- Wiltshire County Council	4,188
6,855	- Other scheduled bodies	7,566
1,139	- Admitted bodies	1,207
11,687		**12,961**
	Contributions from employers	
16,894	- Wiltshire County Council	22,691
23,636	- Other scheduled bodies	30,399
3,344	- Admitted bodies	3,136
43,874		**56,226**
55,561	Total contributions receivable	**69,187**
	BENEFITS PAYABLE	
	Pensions payable	
*11,960	- Wiltshire County Council	12,470
*14,490	- Other scheduled bodies	15,115
*1,120	- Admitted bodies	1,128
27,570		**28,713**
	Retirement and Death grants payable	
1,741	- Wiltshire County Council	1,783
2,689	- Other scheduled bodies	2,560
497	- Admitted bodies	240
4,927		**4,583**
32,497	Total benefits payable	**33,296**

* Restatement of opening balances to reflect incorrect categorisation of assets

(c) Statement of Accounts (continued)

ANALYSIS OF INVESTMENT INCOME

2002-03 £000		2003-04 £000
	Quoted securities	
2,815	- UK fixed interest bonds	2,666
1,231	- Overseas fixed interest bonds	2,325
765	- UK index linked bonds	542
91	- Overseas index linked bonds	155
6,830	- UK equities	5,709
2,375	- Overseas equities	2,338
	Managed funds	
486	- UK companies	213
211	- Overseas companies	91
310	- UK fixed interest bonds	-1
812	- UK property	2,106
	Cash held on deposit	
1,027	- Sterling Cash	846
8	- Overseas Cash	35
16,961		**17,025**

(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 current mandates are the result of the revised investment strategy stemming from the 2001 actuarial valuation results. This arrangement aims to increase the scope for higher investment returns without increasing the Fund's overall exposure to risk, and to more accurately reflect the liability profile of the Fund in the way that it is invested. Details of the strategy are provided in the Fund's Statement of Investment Principles in Appendix (e).

The mandates have been in place since October 2002. The full list of managers is as follows:

Company	Mandate	Share of Fund
Baillie Gifford	Global Equity	25%
Capital International	Global Equity	25%
Northern Trust Global	Global Equity "Manager of Managers"	20%
Western Asset Management	Bonds	20%
ING Real Estate	Property	10%

During the year, the managers transacted purchases of £236.2 million and sales of £164.2 million. The value of assets under management at 31 March 2004 was £711.1 million, broken down by manager as follows:

Baillie Gifford	£179.5 million
Capital International	£182.3 million
Northern Trust Global	£141.4 million
Western Asset Management	£138.0 million
ING Real Estate	£69.9 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 2004 was a temporary cash deposit of £2.2 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 £76.4 million (11% of the total) were on loan at 31 March 2004. Collateral for these securities is held in a pooled form, the Wiltshire Pension Fund's share (2.21%) representing a value of £82.5 million (107.97%). Income earned from this programme amounted to £0.095 million in the year.

A Commission Recapture programme has now been implemented. This has been done through the appointment of Lynch, Jones and Ryan and has generated £0.018 million in the first four months.

(e) Analysis of Investments

Held at 31 March 2004

	£000	% of Fund total
Geographical analysis		
United Kingdom	476,853	66.8
Europe	91,445	12.8
North America	75,275	10.6
Japan	31,258	4.4
Asia, ex Japan	21,088	3.0
Other overseas	17,382	2.4
	713,301	**100.0**
Sector analysis		
Equities	493,389	69.2
Fixed interest bonds	101,868	14.3
Property	67,239	9.4
Cash	24,600	3.4
Index linked bonds	26,205	3.7
	713,301	**100.0**
Analysis by Employer		
Swindon Borough Council	226,967	31.8
Wiltshire County Council	222,288	31.2
Salisbury District Council	46,590	6.5
North Wilts District Council	28,858	4.0
West Wilts District Council	26,746	3.7
Wiltshire Police Authority	26,461	3.7
CIPFA	24,936	3.5
Kennet District Council	23,269	3.3
Wiltshire Probation Service	9,989	1.4
Wiltshire College	9,195	1.3
Thamesdown Passenger Transport	8,242	1.2
Westlea Housing Association	7,996	1.1
Wiltshire Magistrates Court Service	7,867	1.1
Swindon College	6,463	0.9
The Order Of St John Care Trust	6,220	0.9
Town and Parish Councils	5,649	0.8
West Wilts Housing Society	4,959	0.7
Sarsen Housing Association	4,277	0.6
Salisbury College	4,265	0.6
Wiltshire & Swindon Fire Authority	3,879	0.5
Other	3,351	0.5
North Wiltshire Leisure Limited	1,321	0.2
New College	1,126	0.2
Silbury First	959	0.1
Cleanaway Ltd	713	0.1
Silbury Group	506	0.1
Ridgeway Community	209	0.0
	713,301	**100.0**

(e) Analysis of Investments

Held at 31 March 2004

Classification of UK equities

	£000	% of Fund total
Financials	52,871	25.8
Cyclical services	38,424	18.7
Non-cyclical consumer goods	36,724	17.9
Resources	30,779	15.0
Non-cyclical services	25,825	12.6
Basic Industries	10,133	4.9
Information technology	3,656	1.8
Utilities	3,537	1.7
General Industries	3,131	1.5
	205,080	**100.0**

Twenty largest single equity holdings

	£000	% of Fund total
Vodafone	21,730	3.1
Royal Bank of Scotland	10,998	1.5
Barclays	9,321	1.3
Glaxo SmithKline	8,702	1.2
Shell Transport and Trading	7,806	1.1
Astra Zeneca	7,683	1.1
BP	7,381	1.0
HSBC Holdings	7,371	1.0
BG	6,206	0.9
Diageo	5,578	0.8
HBOS	5,215	0.7
Wolseley	4,231	0.6
Man	3,985	0.6
Trinity Mirror	3,759	0.5
British American Tobacco	3,670	0.5
Imperial Tobacco	3,620	0.5
BOC	3,557	0.5
Signet	3,494	0.5
British Land	3,020	0.4
Marks & Spencer	2,910	0.4
	130,237	**18.2**

Note: The twenty largest holdings are made up of direct equity holdings, which are held by the equity managers, Baillie Gifford and Capital International.

(f) Investment Performance

The primary performance information for the Fund is now provided by the custodian (Northern Trust) on a quarterly basis, enabling a comparison of actual performance against the Fund's specific benchmarks. The County Council also subscribes to an investment performance service offered by The WM Company, which provides quarterly information comparing the Fund against the WM All Local Authorities Funds index.

The Wiltshire Pension Fund Committee receives an annual report from Hymans Robertson (our Investment Consultant) and this is supported by supplementary reports prepared by Northern Trust.

The revised investment strategy has changed the way that the Fund's performance is benchmarked. There is now a fund specific benchmark (BM), rather than comparison against the Fund's peer group. This benchmark is shown below along with actual performance during the past year.

Indices	**Percentage Of Fund**	**Actual Performance (Apr 03 to Mar 04)**			**Target Performance**	
		BM	**Actual**	**Over/under**	**Percentage (net of fees)**	**Period (Rolling Yrs)**
UK Equities	40.0%	31.0%	30.8%	- 0.2%	+1%	3/5
North American Equities	10.5%	16.8%	18.1%	+1.3%	+1%	3/5
European Equities	10.5%	36.9%	35.1%	- 1.8%	+1%	3/5
Japanese Equities	3.6%	46.5%	46.4%	- 0.1%	+1%	3/5
Pacific ex Japan Equities	3.6%	33.8%	37.2%	+3.4%	+1%	3/5
Emerging Market Equities	1.8%	56.7%	54.3%	- 2.4%	+1%	3/5
UK Non-Gilts	8.0%	5.6%	7.2%	+1.6%	+0.75%	3
UK Gilts	4.0%	2.5%	1.0%	- 1.5%	+0.75%	3
Index Linked Gilts	4.0%	6.7%	7.7%	+1.0%	+0.75%	3
Overseas Bonds	4.0%	6.9%	0.3%	- 6.6%	+0.75%	3
UK Property	10.0%	12.9%	12.9%	- 0.0%	+0.4%	5
TOTAL	**100.0%**	**24.1%**	**23.5%**	**- 0.6%**	**+0.9%**	

Performance for the year was 23.5%, 0.6% down on performance on the Fund’s specific benchmark. Against the managers’ performance targets (net of fess) shown above, the underperformance was 1.5%. Whilst this is disappointing, following discussions with the underperforming managers, we do understand the reasons and anticipate that their performance will improve.

The three year decline in the stock market ended during the first quarter of the year. However, fears over the situation in the Middle East, increased tension in North Korea and concerns over Sars unsettled the market recovery. In the second half of the year the economic news improved with the official end of hostilities in Iraq and improved economic data with evidence of more sustainable growth in most economies.

Using further data provided by the WM Company, the Wiltshire Fund shows investment returns of 23.5% for 2003-04 compared with the median for the 85 local authorities funds in the Local Authority Fiscal League Tables of 23.9%. The best and worst returns for this group were 29.2% and 14.5%.

(g) Scheme Membership

	Contributing employees		Current pensioners		Deferred pensioners	
	at 31.03.03	**at 31.03.04**	**at 31.03.03**	**at 31.03.04**	**at 31.03.03**	**at 31.03.04**
County Council	6,874	7,598	3,901	4,065	3,666	3,996
Swindon Borough	5,124	5,438	1,611	1,697	1,624	1,863
District Councils						
Kennet	323	364	256	270	145	143
North Wilts	320	341	314	322	206	223
Salisbury	520	567	413	419	207	218
West Wilts	237	267	345	355	264	272
Police Authority	727	818	127	140	126	154
Fire Authority	90	107	11	14	13	14
Probation *	117	163	72	11	36	23
Magistrates Courts *	84	131	58	10	52	10
FE Colleges	900	998	161	176	290	350
Other bodies	1,152	1,161	364	410	449	517
Total	**16,468**	**17,953**	**7,633**	**7,889**	**7,078**	**7,783**

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.

(h) Analysis of Administration Costs

Breakdown of Wiltshire Pension Fund Administration Costs

	2002-03 £000	2003-04 £000
Wiltshire County Council Finance Department charges		
Pension benefit administration	330	331
Pension payroll administration	133	139
Pension investment & accounting administration	86	81
Sub total	**549**	**551**
Direct administration costs		
Pension administration	66	80
Investment & accounting administration	6	5
"Bad advice" costs recouped	-8	-5
Sub total	**64**	**80**
Third party investment management charges		
Investment managers' fees	1300	1577
Custody	73	62
Consultancy fees	99	74
Sub total	**1,472**	**1,713**
Overall total	**2,085**	**2,344**

Statistics

Total costs per scheme member	*£66.87*	*£69.71*
Scheme administration costs per scheme member	*£16.71*	*£16.21*
Scheme administration staff numbers (FTE)	*9.3*	*8.5*
Scheme members per 1 staff FTE	*3,353*	*3.956*
Investment administration costs as % of market value	*0.29%*	*0.25%*

Comments on variations in expenditure between years

The increased investment management costs (+16.4%) results both to fees linked to improved market performances and the result of the first full year of the new investment arrangements, which largely contributed to the increase in the cost per scheme member.

However, scheme membership has again risen significantly (+7.8%), which means that the cost per scheme member has not risen as much as it would otherwise have done as a result of the increased investment management costs, and the administration cost per scheme member has actually fallen.

Report of the Actuary - Hymans Robertson

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, an actuarial valuation of the Fund's assets and liabilities was carried out as at 31 March 2001.

Security of Prospective Rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion I have assumed that the following amounts will be paid to the Fund:-

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997.

- Contributions, for the three years commencing 1 April 2002, paid by the employers are as specified in our certificate dated January 2002 contained in our report on the valuation of the Fund as at 31 March 2004.

- Any additional contributions required as a result of any reduction in the funding level at the 2004 and future valuations will be paid in line with our advice.

Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in our valuation report dated January 2002 and the revised Rates and Adjustments certificate.

Copies of this report are available on request from the Finance & IT Department of Wiltshire County Council.

My opinion on the security of the prospective rights is based on the projected unit valuation method. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the assessed value of assets.

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. 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.	Real at Mar 2001 % p.a.
Investment Return		
Equities	6.25-6.50%	3.45-3.70%
Bonds	5.25-5.50%	2.45-2.70%
75% Equities / 25% Bonds	6.00-6.25%	3.20-3.45%
Pay Increases	4.30%	1.50%
Price Inflation/Pension Increases	2.80%	-

For liabilities which will accrue in respect of service after the valuation date I have adopted a discount rate which is initially the expected return from the existing assets at current market conditions but which in the longer term reverts to our longer term assumptions.

The 2001 valuation revealed that the Fund's assets, which at 31 March 2001 were valued at £629 million, were sufficient to meet approximately 80% of the liabilities accrued up to that date.

The next valuation of the Fund will be carried out as at 31 March 2004. As a consequence of falls in the level of the equity market, and falls in bond yields since the valuation date, the funding level as at 31 March 2004 is expected to be lower than as at 31 March 2001. Accordingly, the level of employers' contributions following from the 31 March 2004 valuation is expected to be higher than that following from the 31 March 2001 valuation. As indicated above, my opinion on the security of prospective rights is dependent upon any increased contribution requirement being met by the employers.

I am aware that some employers have paid contributions in excess of the minimum contributions shown in the Rates and Adjustments certificate. These extra payments will be taken into account in the 2004 valuation and will act to reduce the contributions that would otherwise have been payable.

The increased rates of employer contributions will be effective in April 2005.

W Douglas B Anderson
Fellow of the Institute of Actuaries
Partner in the firm of Hymans Robertson

14 May 2004
221 West George Street
GLASGOW
G2 2ND

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

(a) Schedule of Employer Bodies

Scheduled Bodies

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

Admitted Bodies

Action for Blind People
CIPFA
Cleanaway Ltd
Community First
Connexions
Rethink
North Wiltshire Leisure Limited
Salisbury and South Wilts Museum
Sarsen Housing Association
Silbury First
Silbury Group
Ridgeway Community
The Order Of St John Care Trust
United Response
West Wilts Housing Society
Westlea Housing Association
Wiltshire Archaeological Society
Wiltshire Community Foundation

(b) Scheme Benefits at 31 March 2004

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. For members who join after 1 April 2004 this 2 year period is reduced to 3 months.
Ill Health Retirement	With over five years service, an enhanced pension and tax free lump sum is immediately and reviewed every 5 years until the age of 65 by the employer. 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 – as at 31 March 2004

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

Employee Observers

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

Admitted Bodies

Mr David Phelps – Orders of St John Care Trust

(b) County Council Officers

Mike Prince - County Treasurer
David Broome - Financial Planning Manager (investments and FRS17 issues)
Jayne Slee - Head of Exchequer Services (technical pensions & admitted body issues)
Steve Memmott - Chief Internal Auditor

(c) Investment Manager Representatives

Nigel Morecroft & Shona Casely - Baillie Gifford & Co
Neil Osborne & Henriette Van Rensburg - Capital International Ltd
Nick Cooper & Ian Whittock – ING Real Estate Investment Management
Tony Earnshaw, Michael Kinney & Lucy Cooke – Northern Trust Global Advisors Ltd
Simon Gregory & Paul Wynn – Western Asset Management Co Ltd

(d) Actuary

Douglas Anderson, Hymans Robertson

(e) Investment Consultant

George Henshilwood, Hymans Robertson
Keith Neale, Independent Pensions Consultant

(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 four previous annual reports. The SIP was updated in 2002-03, in order to take account of the revised investment strategy agreed for the Fund by the Wiltshire Pension Fund Committee on 26 March 2002. A draft of the revised SIP was included in the 2001-02 Annual Report and was approved by the Wiltshire Pension Fund Committee on 22 July 2002. The SIP gives a comprehensive description of the thinking behind the way in which the investments of the Fund are managed.

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 Office of the Deputy Prime Minister, which administers the regulations for the LGPS, has issued a new regulation requiring administering authorities to publish the extent of their compliance with these ten principles. This is achieved by inclusion of the details of compliance within local authority funds' SIPs.

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 Office of the Deputy Prime Minister (ODPM). 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 regulations were amended in 2003 to allow investment committees to increase their Fund's exposure to certain type of investments – but only where proper advice has been obtained. The current limits are as follows (with the additional headroom now allowable in brackets):

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

(b) No more than 10% (15%) invested in unlisted securities.

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

(d) No more than 25% (35%) in unit trusts or other collective investment schemes managed by any one body.

(e) No more than 25% (35%) in a single insurance contract.

Any decision to increase the Fund's exposure to any of the above investments must be included in a revised SIP giving a description of the investment subject to the new limit; the new limit; the reason for the decision; the period for which the decision will apply; and a statement that the decision complies with the 1998 Regulations.

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.

(c) the extent to which the administering authority complies with the ten CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom, which followed Paul Myners' review of institutional investment; this must be explicitly stated.

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 (property and equities), and sterling and overseas cash deposits. The Fund may also invest in futures, options and forward currency transactions, as well limited investment in direct property. The Fund, 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 direct equity managers to follow PIRC voting recommendations.

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

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.

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

Current Investment Strategy

Solvency Position of the Wiltshire Pension Fund

The results of the actuarial valuation of the Fund as at 31 March 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.

The Interim Valuation that was carried out as at 31 March 2003 showed that the funding position of the whole fund was 76%. This was not as bad as had been anticipated but it is likely to disguise significant variations between employer bodies within that. Larger employers who have put in significant cash injections from capital receipts are likely to fair better than smaller employers who have not done so.

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	Baillie Gifford	Capital Intern.	Northern Trust Global	Western Asset Man	ING Real Estate	Total
Share of Fund	25%	25%	20%	20%	10%	100%
Benchmarks						
Indices:	%	%	%	%	%	%
FTSE-A UK All Share	70.0	50.0	50.0			40.0
FTSE AW N America	10.5	17.5	17.5			10.5
FTSE AW Europe (ex UK)	10.5	17.5	17.5			10.5
FTSE AW Japan	3.6	6.0	6.0			3.6
FTSE AW Pacific (ex Japan)	3.6	6.0	6.0			3.6
MSCI Emerging Markets	1.8	3.0	3.0			1.8
ML Sterling Non-gilt 10 year +				40.0		8.0
ML Gilts 10 year +				20.0		4.0
FTSE-A Index Linked Gilts 5 yr +				20.0		4.0
SB World Govt ex UK ex Japan				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	

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 (Baillie Gifford and Capital International) and a manager of managers mandate (Northern Trust Global Advisors).

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 is achieved by adjusting 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 fee is charged by the hour.

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 consultants 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. A formal Member Training Plan will be introduced in due course. 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 Financial Planning Manager and Principal Accountant – Assets and Investments also support the Committee in its investment responsibilities. The Financial Planning Manager has effective responsibility on a day to day basis.

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 nine 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. It has adopted a formal "Forward Plan 2004-06" during 2003-04. The Committee receives and approves 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 primarily seeks the achievement of its performance objectives. This is of over-riding concern, but the Committee is also conscious of transaction costs and management fees. The Committee has given the Fund's investment managers a significant incentive to control costs themselves, because performance is measured net of transaction costs and management fees. 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. This has been strengthened recently by the compulsory requirement for regular reporting from investment managers themselves. A high-level review of transaction costs is being undertaken in 2004-05.

The Committee does not specifically forbid its investment managers from participating in soft commissions, but it does expect its investment managers to report on these, with justifications for their use, where they arise. We believe that *none of our managers do indulge in soft commissions. The Committee has implemented a commission recapture programme as a further way of minimising the costs of the fund.*

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 sub-optimal 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. Appropriate elements of the Fund benchmark have been included within the mandates for each of the five investment managers. 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. Informal tracking error ranges have been included within the two direct equity mandates, in addition to requiring the relevant out-performance margin over the benchmark. However, this is not possible for the "manager of managers" equity mandate, because the investments are all in pooled funds.

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.

The actual asset allocation position of the Fund against the overall strategic benchmark is formally reviewed on an annual basis, but it is informally monitored every month as part of the allocation of new cash to managers, and quarterly as part of routine performance monitoring by the Committee.

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.