Agenda Item No. 11

WILTSHIRE PENSION FUND

Annual Report & Financial Statements

2004-05

(unaudited)

Wiltshire County Council

THE WILTSHIRE PENSION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS 2004-05

Contents

			Page
1.	Introduction		3
2.	Trustees' Report for Wiltshire Pension Fund Annual Report 2004-05		4
3.	Financial Statements		
	(a)	Statement of responsibilities	9
	(b)	Statement of Accounting Policies	10
	(c)	Statement of Accounts	12
	(d)	Investment Management Notes	16
	(e)	Analysis of Investments	17
	(f)	Investment Performance	19
	(g)	Scheme Membership	20
	(h)	Analysis of Administration Costs	21
4.	Actuary's Report		22
5.	Appendices		
	(a)	Schedule of Employer Bodies	25
	(b)	Scheme Benefits	26
	(c)	Other Publications	27
	(d)	Personnel Details	28
	(e)	Statement of Investment Principles	29

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 2005. It supplements the statement of accounts of the County Council, a formal publication required under the Accounts and Audit Regulations 2003 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.

Wiltshire Pension Fund Trustees' Report for 2004-05

Introduction

This is the fourth 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 has been an extremely busy and interesting one for the Committee and the officers involved in managing the Fund. Several major pieces of work have been undertaken, including the triennial Actuarial Valuation, the development of a Funding Strategy Statement and an Investment Strategy Review. In addition, there has been the more regular work, such as monitoring investment performance and managers, admitting new employer bodies and responding to consultations on such matters as future changes to the Local Government Pension Scheme (LGPS).

The Committee met for the last time with its former membership on 21 February 2005, as a number of members, including our chairman David Lay, stood down at the May 2005 County Council elections. I would like to record my heartfelt thanks to those Members and to David Lay, in particular, for their contribution to the Committee over the past 4 years.

As your new Committee, with some new and some more experienced Members, we recognise our need to get up to speed with all the issues surrounding the Fund and to be trained appropriately in order to serve the Fund most effectively as quickly as possible.

Valuation

Under the statutory LGPS regulations, an Actuarial Valuation of the Fund must be carried out every three years. The purpose of this valuation is to establish the liabilities, assets and surplus/deficit for each participating employer, from which employers' contribution rates are calculated.

Wiltshire's Valuation was completed by the Fund's actuary (Hymans Robertson) over the summer of 2004 in respect of the period to 31 March 2004 and it was reported to the Committee and participating employers in October 2004. The overall result was encouraging, with an overall funding level of 75%, a drop of just 5% compared to the 2001 valuation. Over the same period, most LGPS Funds registered falls in their funding levels of between 10% and 20%.

The reason for the relatively good performance of the Wiltshire Fund is that our employers had already been paying high contribution rates relative to other funds since the 2001 (and 1998) valuations. In addition, several of the larger local authorities within the Fund have put in substantial amounts of capital receipts over the period under a special dispensation given by the Office of the Deputy Prime Minister. The funding level of the Wiltshire Fund is now around the average amongst local authority funds.

However, this relatively positive outcome for the whole Fund does disguise some more severe reductions in the funding levels of some of the smaller employers within the Fund and therefore there have been difficult increases in employer contribution rates for some.

We would take this opportunity to publicly record our thanks to all colleagues at Hymans Robertson, but particularly to Douglas Anderson and Peter Summers, for their hard work and commitment to the Wiltshire Fund throughout the Valuation and follow-up period of work.

Funding Policy

Under the LGPS regulations, funds had to produce a Funding Strategy Statement for the first time during 2004-05. This is principally designed to document a funding policy to meet the employers' liabilities which are identified. There are three main sources from which liabilities are met; employees' contributions, employers' contributions and investment returns. The document also looks at the management of benefits to the limited extent to which discretion is available to the Fund and the employers within it.

Wiltshire Pension Fund's Funding Strategy Statement is available on request (copies have been sent to all employer bodies), but it is worth just highlighting the main elements of the Funding Policy here:

- To achieve 100% funding for the whole Fund and each employer
- To ensure liquid funds are available to meet benefits when due
- Not to constrain investment strategy
- To bring employer contribution stability
- To help employers' manage their liabilities
- To reduce risk
- To accommodate the individual nature of employers

Investment Strategy Review

Following the 2004 Actuarial Valuation, the Fund carried out a review of its investment strategy. Given that 70% of the Fund was (and still is) invested in equities, we would expect high volatility from investment returns as markets go up and down. Given the relatively short term valuation cycle of 3 years, it would not be surprising if the valuations sometimes fell at a time when markets are relatively lower. As a result, the volatility of the equity markets can feed fairly directly into employer contributions, which makes them quite volatile.

Significant volatility of contributions is not comfortable for any of the organisations within the Fund. Therefore, the investment strategy review sought to look at ways to reduce it. This was approached from two angles:

1. To look at the possibility of introducing two or three multiple sub-investment strategies within the Fund so that the relative sensitivity of individual employers to volatility could be catered for (sensitivity depends on a number of factors, but principally the size of an employer's liabilities/deficit relative to their pensionable payroll).

   However, the results of detailed analysis by Hymans Robertson showed that tailored investment strategies would not reduce volatility substantially, because most employers were close to the average profile for the whole Fund. Just three small employers representing 2.5% of the Fund's liabilities would have benefited and so the Committee decided that the administrative costs that would result outweighed the advantages to be gained.

2. To look at reducing volatility for all employers by reducing the equity component of the Fund's investments.

   The possibility of reducing the equity component to 50% by a corresponding 20% increase in bonds (ie. for lower but more stable returns) was investigated. However, the benefits of this were found to be marginal, with an increase in employers contributions of 4% only compensated for by 0.5% (of pensionable pay) reduction in volatility. Such an increase for so little benefit was not considered to be prudent.

Following this, a review of investment strategy was carried out over the winter of 2004-05, the Committee endorsed a set of recommendations put forward by the County Treasurer and

Hymans Robertson on 21 February 2005. The objective of these changes was to achieve at least a marginal reduction in volatility without damaging returns. The following changes were agreed:

1. To take 5% of the Fund from Northern Trust (Global Equity) and 5% from Capital International (Global Equity) and put the funds into Capital International's Absolute Income Grower product (ie. 10% of Fund). This product is new to the UK, but has a very long track record in the US of providing "equity-like returns" with about half the volatility of traditional equity mandates. It invests largely in equities, with some investment in bonds and cash, but the focus is on income rather than capital growth, which is how the reduced volatility is achieved.

2. To take 5% of the Fund from Baillie Gifford's global equity product and put it in their Global Growth Fund. This Fund is not constrained by regional equity benchmark indices, so the fund managers can invest in their favourite equity stocks anywhere in the world, which should increase returns substantially over the long term compared to a traditional approach. However, it is relatively concentrated (30-60 stocks) and so is likely to be somewhat more volatile.

3. At the same time, the Fund's bond manager Western Asset Management were given more flexibility to invest in High Yield Bonds and Emerging Market Debt to enable them to boost returns.

It is hoped that these changes, when taken together, will boost returns a little to help fund liabilities and at the same time, should show a marginal reduction in overall volatility. The changes were implemented in May 2005 and this will be reported in detail in the 2005-06 Annual Report.

Investment Performance

The investment returns over the year 2004-05 have been disappointing, with a gross return of 11.2% compared to the consolidated benchmark of 12.5%. Compared to the managers' performance targets, which are more stretching, returns are down by 2.2%. We continue to monitor managers' activity and consult with them to understand the reasons for this underperformance. It is hoped that the changes to the arrangements described above will bring about improvements in investment performance for the future.

Compared to other Local Authority funds, the Wiltshire Fund achieved 47th out of 89 local authority funds within the WM Local Authority Annual League tables.

It is important to remember that correct asset allocation decisions have much more influence on long-term performance than returns from individual managers. It is also crucial to bear in mind that strong positive investment performance (ie. the asset side) does not mean that funding levels will improve proportionately, because:

- the liabilities are also always moving upwards with inflation;
- future liabilities are valued by reference to bond yields, which typically pushes their valuation upwards at the same time as investment returns are rising; and
- the actuary has already allowed an assumption of future investment returns when determining the funding level.

As well as focusing on investment returns, we continue to look for opportunities to provide added value for the Fund in smaller ways too. The Commission Recapture and Stock Lending programmes have yielded income of approximately nearly £0.150 million over the year. The Committee has also considered information on investment transaction costs and the County Treasurer will be carrying out a formal review in this area during 2005-06.

Update on changes to the Local Government Pension Scheme

During the year the Committee has considered proposals from the Office of the Deputy Prime Minister (ODPM) on changes to the Scheme in April 2005 and April 2008. The April 2005 changes included:

- a change to the early retirement rules with the removal of the 'Rule of 85' for all new members after 1 April 2005
- an 'equitable' phasing out of the 'Rule of 85' for existing members
- an increase in the earliest age when benefits may be paid (other than on ill-health grounds) from 50 to 55

These changes were aimed at safeguarding the future of the LGPS by stabilising costs and they would have paved the way for the next stage of the review to modernise the scheme. This would have seen a new-look LGPS introduced from 2008 to meet the needs of employers and the workforce whilst representing good value for local taxpayers.

However, as a result of meetings between the Deputy Prime Minister, Trade Unions and Local Government Employers, it was agreed to revoke the 2005 changes, which had already passed in legislation. Fresh legislation to revoke the changes came into force on 3 August 2005 but was retrospective to 1 April 2005. The LGPS has therefore reverted to the rules and regulations that were in place prior to 1 April 2005.

The Government has set up a Tripartite Committee, with employers and unions, to develop realistic and costed measures by the autumn of 2005 to fully meet the costs arising from the decision to revoke the regulations. It has been made clear that Central Government will not provide additional funding to compensate Local Authorities for the additional cost of revocation in 2005-06, estimated to be £400 million nationally.

Consultations on further regulation changes to address the cost of revocation will take place in time for them to take effect from 1 April 2006. At this stage it is not clear what impact this will have on the proposals for a new-look LGPS in April 2008.

Other Matters

The Fund continues to support its employers by co-ordinating the provision of FRS17 accounting reports from the actuary, so that they can meet their obligations to show their pension liabilities relative to their pension assets in their annual accounts.

The Wiltshire Pension Fund website is available for members, pensioners, employer bodies and all who want to know more about the Fund. The site provides contact details for staff who can help resolve queries or help with requests for information.

Conclusion

The past year has been an important one for the Fund as it has responded to the Valuation, which at its most basic level is an indicator of the health of the Fund. More challenges lay ahead over the next year with the need to respond to the fast moving agenda of change in the LGPS and to improve our own understanding of all aspects of the Fund, so that we as your new Committee, can continue to serve to achieve the most economic, efficient and effective arrangements for the benefit of all employer bodies.

Kevin Wren, Chairman
On behalf of the Wiltshire Pension Fund Committee

Financial Statements

(a) Statement of Responsibilities

(b) Statement of Accounting Policies

(c) Statement of Accounts

(d) Investment Management Notes

(e) Analysis of Investments

(f) Investment Performance

(g) Scheme Membership

(h) Analysis of Administration Costs

(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 to 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 2004-05 are shown in Appendix (d).

The Committee will exercise the functions of the County Council as administrating authority under the Local Government Superannuation Act & Regulations and deal with all matters relating to the Wiltshire Pension Fund.

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.

Audit Commission

The Audit Commission 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.

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 (£0.248 million in 2003-04) 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 (£2.368 million as at 31 March 2004), 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

2003-04 £000		2004-05 £000
	CONTRIBUTIONS AND BENEFITS	
	Contributions receivable	
12,961	- from employees	13,925
56,226	- from employers	42,326
7,863	Transfers in	10,604
77,050	**Total income**	**66,855**
	Benefits payable	
28,713	- Pensions	30,413
3,970	- Retirement grants	4,706
613	- Death benefits	861
	Payments to and on account of leavers	
5,182	- Transfers out	5,395
713	- Contribution refunds	315
573	Administration expenses	665
39,764	**Total expenditure**	**42,355**
37,286	**Net additions from dealings with members**	**24,500**
	RETURN ON INVESTMENTS	
17,025	Investment income	20,043
112,153	Change in market value of investments	60,563
-1,771	Investment expenses	-1,943
127,407	**Net returns on investments**	**78,663**
164,693	**NET INCREASE IN FUND DURING YEAR**	**103,163**
546,505	Opening net assets of the Scheme	711,198
711,198	Closing net assets of the Scheme	814,361

(c) Statement of Accounts (continued)

NET ASSET STATEMENT

31.03.04 £000		31.03.05 £000
	INVESTMENT ASSETS	
	Quoted securities	
20,438	- UK Fixed interest Government bonds	22,709
63,060	- UK Fixed Interest Corporate bonds	72,937
18,369	- Overseas fixed interest Government bonds	24,557
21,634	- UK index linked Government bonds	16,522
1,468	- UK index linked Corporate bonds	4,306
3,104	- Overseas index linked Government bonds	6,692
205,080	- UK equities	233,601
122,626	- Overseas equities	130,287
	Managed funds	
80,800	- UK equities	93,620
84,883	- Overseas equities	95,958
67,239	- UK property	80,760
	Cash held on deposit	
18,144	- Sterling Cash	18,508
1,916	- Overseas Cash	10,776
708,761	**Total of investments held**	**811,233**
	NET CURRENT ASSETS	
3,152	Sundry Debtors	3,730
-715	Less Sundry Creditors	-602
2,437	**Total net current assets**	**3,128**
711,198		**814,361**

ANALYSIS OF CONTRIBUTIONS RECEIVABLE & BENEFITS PAYABLE

2003-04 £000		2004-05 £000
	CONTRIBUTIONS RECEIVABLE	
	Contributions from employees	
4,188	- Wiltshire County Council	4,595
7,566	- Other scheduled bodies	8,167
1,207	- Admitted bodies	1,163
12,961		**13,925**
	Contributions from employers	
22,691	- Wiltshire County Council	15,836
30,399	- Other scheduled bodies	23,160
3,136	- Admitted bodies	3,330
56,226		**42,326**
69,187	Total contributions receivable	**56,251**
	BENEFITS PAYABLE	
	Pensions payable	
12,470	- Wiltshire County Council	12,988
15,115	- Other scheduled bodies	16,162
1,128	- Admitted bodies	1,263
28,713		**30,413**
	Retirement and Death grants payable	
1,783	- Wiltshire County Council	1,876
2,560	- Other scheduled bodies	3,064
240	- Admitted bodies	627
4,583		**5,567**
33,296	Total benefits payable	**35,980**

(c) Statement of Accounts (continued)

ANALYSIS OF INVESTMENT INCOME

2003-04 £000		2004-05 £000
	Quoted securities	
2,666	- UK fixed interest bonds	3,514
2,325	- Overseas fixed interest bonds	2,381
542	- UK index linked bonds	538
155	- Overseas index linked bonds	83
5,709	- UK equities	6,896
2,338	- Overseas equities	2,863
	Managed funds	
213	- UK companies	217
91	- Overseas companies	138
-1	- UK fixed interest bonds	-
2,106	- UK property	2,622
	Cash held on deposit	
846	- Sterling Cash	766
35	- Overseas Cash	25
17,025		**20,043**

(d) Investment Management Notes (as at 31/5/05)

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 (as at 31/3/05) 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 had 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 £209.8 million and sales of £149.3 million. The value of assets under management at 31 March 2005 was £808.5 million, broken down by manager as follows:

Baillie Gifford	£204.2 million
Capital International	£203.8 million
Northern Trust Global	£158.9 million
Western Asset Management	£159.0 million
ING Real Estate	£82.6 million
	£808.5 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 2005 was a temporary cash deposit of £2.7 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 £95.8 million (12% of the total) were on loan at 31 March 2005. Collateral for these securities is held in a pooled form, the Wiltshire Pension Fund's share (2.21%) representing a value of £100.1 million (104.49%). Income earned from this programme amounted to £0.089 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 £0.054 million in the first full year.

(e) Analysis of Investments

Held at 31 March 2005

	£000	% of Fund total
Geographical analysis		
United Kingdom	542,962	66.9
Europe	103,717	12.8
North America	87,852	10.8
Japan	34,041	4.2
Asia, ex Japan	27,423	3.4
Other overseas	15,238	1.9
	811,233	**100.0**
Sector analysis		
Equities	553,465	68.2
Fixed interest bonds	120,203	14.8
Property	80,760	10.0
Cash	29,284	3.6
Index linked bonds	27,521	3.4
	811,233	**100.0**
Analysis by Employer		
Swindon Borough Council	256,149	31.6
Wiltshire County Council	250,220	30.8
Salisbury District Council	52,207	6.4
Kennet District Council	32,792	4.0
Wiltshire Police Authority	31,325	3.9
North Wilts District Council	31,230	3.8
CIPFA	28,971	3.6
West Wilts District Council	28,378	3.5
Wiltshire College	11,084	1.4
Wiltshire Probation Service	10,891	1.3
Westlea Housing Association	8,906	1.1
Thamesdown Passenger Transport	8,768	1.1
Wiltshire Magistrates Court Service	8,762	1.1
Swindon College	7,734	1.0
The Order Of St John Care Trust	7,068	0.9
Town and Parish Councils	6,832	0.8
West Wilts Housing Society	6,354	0.8
Salisbury College	4,922	0.6
Sarsen Housing Association	4,579	0.6
Wiltshire & Swindon Fire Authority	4,333	0.5
Other	3,685	0.5
North Wiltshire Leisure Limited	1,686	0.2
New College	1,530	0.2
Silbury First	1,098	0.1
Cleanaway Ltd	808	0.1
Silbury Group	649	0.1
Ridgeway Community	272	0.0
	811,233	**100.0**

(e) Analysis of Investments

Held at 31 March 2005

Classification of UK equities	£000	% of Fund total
Financials	63,701	27.3
Cyclical services	47,255	20.2
Resources	35,174	15.1
Non-cyclical consumer goods	30,722	13.2
Non-cyclical services	26,683	11.4
Basic Industries	15,505	6.6
Information technology	6,098	2.6
Utilities	4,244	1.8
General Industries	4,148	1.8
Cyclical consumer goods	71	0.0
	233,601	**100.0**

Twenty largest single equity holdings	£000	% of Fund total
Vodafone	21,921	2.7
Royal Bank of Scotland	14,742	1.8
Glaxo SmithKline	9,960	1.2
Shell Transport and Trading	9,155	1.1
Barclays	8,664	1.1
HBOS	7,566	0.9
BP	7,282	0.9
Astra Zeneca	6,910	0.9
BHP Billiton	6,615	0.8
HSBC Holdings	6,222	0.8
BG	5,940	0.7
Wolseley	5,349	0.7
Signet	5,267	0.6
British Land	4,824	0.6
Diageo	4,642	0.6
Standard Chartered	4,355	0.5
Imperial Tobacco	4,212	0.5
Northern Rock	3,783	0.5
BOC	3,454	0.4
Kingfisher	3,398	0.4
	144,261	**17.7**

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 BM**	**Actual Performance (Apr 04 to Mar 05) BM**	**Actual**	**Over/under**	**Target Performance Percentage (net of fees)**	**Period (Rolling Yrs)**
UK Equities	40.0%	15.6%	13.9%	- 1.7%	+1%	3/5
North American Equities	10.5%	4.8%	1.4%	- 3.4%	+1%	3/5
European Equities	10.5%	18.6%	15.6%	- 3.0%	+1%	3/5
Japanese Equities	3.6%	- 4.3%	- 6.2%	- 1.9%	+1%	3/5
Pacific ex Japan Equities	3.6%	18.9%	15.5%	- 3.4%	+1%	3/5
Emerging Market Equities	1.8%	13.8%	11.2%	- 2.6%	+1%	3/5
UK Non-Gilts	8.0%	7.1%	7.6%	+0.5%	+0.75%	3
UK Gilts	4.0%	5.4%	6.1%	+0.7%	+0.75%	3
Index Linked Gilts	4.0%	5.7%	6.1%	+0.4%	+0.75%	3
Overseas Bonds	4.0%	6.7%	14.6%	+7.9%	+0.75%	3
UK Property	10.0%	18.0%	19.9%	+1.9%	+0.4%	5
TOTAL	**100.0%**	**12.5%**	**11.2%**	**- 1.3%**	**+0.9%**	

Performance for the year was 11.2%, 1.3% down on performance on the Fund's specific benchmark. Against the managers' performance targets (net of fees) shown above, the underperformance was 2.2%. Whilst this is disappointing, following discussions with the underperforming managers, we do understand the reasons and anticipate that their performance will improve.

This last year saw a continuation of strong equity performance which began early in 2003. Although concern about the Madrid bombing, commodity prices and the US deficits shook investor confidence at the start of the year these factors were later countered by improved economic growth and better news on corporate profitability.

Using further data provided by the WM Company, the Wiltshire Fund shows investment returns of 11.2% for 2004-05 compared with the median for the 89 local authorities funds in the Local Authority Fiscal League Tables of 11.3%. The best and worst returns for this group were 13.5% and 4.8%

(g) Scheme Membership

	Contributing employees		Current pensioners		Deferred pensioners	
	at 31.03.04	**at 31.03.05**	**at 31.03.04**	**at 31.03.05**	**at 31.03.04**	**at 31.03.05**
County Council	7,598	8,170	4,065	4,013	3,996	4,278
Swindon Borough	5,438	5,481	1,697	1,754	1,863	2,151
District Councils						
Kennet	364	365	270	264	143	154
North Wilts	341	358	322	321	223	224
Salisbury	567	606	419	420	218	237
West Wilts	267	273	355	344	272	288
Police Authority	818	866	140	156	154	193
Fire Authority	107	103	14	17	14	18
Probation	163	150	11	93	23	58
Magistrates Courts	131	125	10	73	10	64
FE Colleges	998	975	176	203	350	430
Other bodies	1,161	1,110	410	455	517	568
Total	**17,953**	**18,582**	**7,889**	**8,113**	**7,783**	**8,663**

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

	2003-04 £000	2004-05 £000
Wiltshire County Council Finance Department charges		
Pension benefit administration	331	355
Pension payroll administration	139	145
Pension investment & accounting administration	81	79
Sub total	**551**	**579**
Direct administration costs		
Pension administration	80	144
Investment & accounting administration	5	5
"Bad advice" costs recouped	-5	-4
Sub total	**80**	**145**
Third party investment management charges		
Investment managers' fees	1577	1746
Custody	62	34
Consultancy fees	74	103
Sub total	**1,713**	**1,883**
Overall total	**2,344**	**2,607**

Statistics

Total costs per scheme member	*£69.71*	*£73.73*
Scheme administration costs per scheme member	*£16.21*	*£18.10*
Scheme administration staff numbers (FTE)	*8.5*	*11.3*
Scheme members per 1 staff FTE	*3.956*	*3.129*
Investment administration costs as % of market value	*0.25%*	*0.24%*

Comments on variations in expenditure between years

The increased costs in pension administration are due to the additional actuarial work undertaken including the fund valuation. The increased investment management costs (+9.9%) result from increased fees linked to improved market values and higher consultancy fees due to additional work carried out by our consultants in connection with the Investment Strategy Review.

However, scheme membership has again risen significantly (+5.2%), 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 pension administration costs.

Report of the Actuary - Hymans Robertson

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, an actuarial valuation of Wiltshire County Council Pension Fund's assets and liabilities was carried out as at 31 March 2004.

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 at the rate of 6% of pensionable pay for all members except manual staff who joined before 1 April 1988 and contribute at the rate of 5% of pensionable pay.

- Contributions, for the three years commencing 1 April 2005, paid by the employers are as specified in our Rates and Adjustments certificate dated 24 March 2005.

Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in our valuation report dated March 2005 and the Rates and Adjustments certificate contained therein.

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 where there is an expectation that new employees were to be allowed to join an employer; or

- the attained age valuation method for employers who were closed to new entrants.

These methods assess the cost of benefits accruing to existing members during

- the year following the valuation; or

- the remaining working lifetime, respectively

allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the assessed value of assets.

Like the previous (2001) valuation, a "market related" valuation method has been used. However, in previous valuation, a "smoothed" approach was taken for deriving the financial assumptions and assessing the value of assets. At the 2004 valuation, such a smoothing methodology was not used to devise the financial assumption – spot yields were used instead. Nor was any smoothing used in assessing the asset values.

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

Financial Assumptions	March 2004 Unsmoothed	
	% p.a. Nominal	% p.a. Real
Discount Rate	6.3%	3.4%
Pay Increases	4.4%	1.5%
Price Inflation/Pension Increases	2.9%	-

The 2004 valuation revealed that the Fund's assets, which at 31 March 2004 were valued at £710 million, were sufficient to meet approximately 75% of the liabilities accrued up to that date.

The next valuation of the Fund will be carried out as at 31 March 2007.

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 2007 valuation and will act to reduce the contributions that would otherwise have been payable.

Peter Summers FFA
For and on behalf of Hymans Robertson LLP

19 May 2005
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

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 2005

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 available 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 2005

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 Des Moffat
Mr David Rennard

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 – Capital & Investments 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 & Neville Jones - Capital International Ltd
Nick Cooper & Ian Whittock – ING Real Estate Investment Management
Tony Earnshaw & 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. Subsequent minor technical amendments have been made and approved by the Committee as part of the 2002-03 and 2003-04 Annual Report approval processes. It is now fully updated to take account of the revisions to the Investment Strategy introduced in 2004-05. 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:

	Page
Background to the Pension Fund	30
Policy on Investments	33
Current Investment Strategy	36
Other Matters	41
Supplement (Compliance with Investment Principles for Defined Benefit Schemes)	42

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.

All Local Government Pension Scheme (LGPS) funds have to produce, consult on and publish a document called a "Funding Strategy Statement" (FSS). The Office of the Deputy Prime Minister (ODPM) has defined the purpose of the FSS as being:

a) *"To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;*

b) *to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and*

c) *to take a prudent longer-term view of funding those liabilities."*

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

Therefore, the best that can be achieved is a sensible balance between low and stable in employer contributions over the long term, accepting that triennial valuations are likely to lead to greater volatility if higher equity investment strategies are in place.

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, of which one of the key risks is volatility of returns, which may knock-on to make employer contributions volatile too.

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 as limited investment in direct property. The Fund, for the present, chooses not to invest in private equity and venture capital and hedge funds.

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 21 February 2005 (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 2005. 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	4.8	4
Overseas Equities	4.5	4
UK Gilts	1.5	3
Corporate Bonds	2.3	3
UK Index Linked	1.0	2
Property	2.8	3
Cash	1.9	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 2004 showed that Fund liabilities totalled £950 million, whilst assets stood at £710 million. The Fund therefore had a deficit of assets of £240 million, or expressed another way, had a solvency level of 75%. This compared with a solvency position at 31 March 2001 of 80%. Whilst not ideal, this drop of 5% is amongst the lowest for local authority funds over the 3 years and put Wiltshire about mid-table among local authorities in terms of its solvency level.

This reduction to 75% can be attributed to a number of factors, principally investments returns being less than expected, higher than assumed increases in earnings and the assumed increased life expectancy of scheme members. However, high employer contributions (including large capital injections by several local authority employers) significantly offset these losses, because they were very much larger than the increase in the liabilities over the same period.

The required common contribution rate to achieve 100% solvency has been assessed at 19.5% of pensionable pay as a result of the 2004 valuation, this being made up of an ongoing contribution rate of 13%, and a past service adjustment rate of 6.5%. This latter rate is intended to eradicate the deficit over 20 years. However, for non-local authority employers, the deficit recovery period is 14 years, except for private sector contractors, where it is the remaining length of their contract.

Maturity Position of the Wiltshire Fund

A comparison of the liability position of the Fund between the 2001 and 2004 valuation is shown below:

	2001		2004	
	£m	%	£m	%
Contributors	355	*45*	415	*44*
Pensioners	327	*42*	395	*41*
Deferred pensioners	104	*13*	140	*15*

The above figures show that no major shift took place during the inter-valuation period, although the percentage 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 (41% 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 (15% 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 to October 2002, equity market valuations fell by over a quarter. 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.

Funding Policy

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

- to achieve a funding level of 100%, both at the whole Fund level and for the share attributable to individual employers, within a timescale that is prudent and affordable;
- to ensure that sufficient liquid funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to maximise the degree of stability in the level of each employer's contributions to the extent that the Administering Authority (in consultation with the actuary) is able to do so in a prudent and justifiable way;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and

- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

Overall Investment Strategy

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 relatively immature nature of the liabilities of the Fund and the consequent strong cash flow position (there is no need for the forced selling of investments to meet pension liabilities);

(b) the need to assist in the recovery of the deficit position by maximising the real rate of positive return over the long term, subject to not exposing the Fund to unreasonable risks; and

(c) a reasonably long time frame, which is made possible by the secure nature of most of the employers' covenants.

The liability profile of the Fund as at 31 March 2004 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	35%
Overseas equities	35%
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 ten stocks making up 40% of the FTSE All Share index. This concentration reduces the level of diversification with the Fund and therefore increases risk. Further, with increasing globalisation, former arguments in favour of a UK bias for risk control reasons (eg. the perceived ability to influence UK regulation) are becoming weaker. Many UK companies now derive very significant proportions of their income from overseas. A higher weighting is therefore given to overseas markets compared with the position adopted by some funds.

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 seven mandates:

	Baillie Gifford (1)	**Baillie Gifford (2)**	**Capital Intern. (1)**	**Capital Intern. (2)**	**Northern Trust Global**	**Western Asset Man**	**ING Real Estate**	**Total**
Share of Fund	20%	5%	20%	10%	15%	20%	10%	100%
FTSE-A UK All Share	80.0%		30.0%		50.0%			29.5%
FTSE AW N America	7.0%		24.5%		17.5%			8.9%
FTSE AW Europe (ex UK)	7.0%		24.5%		17.5%			8.9%
FTSE AW Japan	2.4%		8.4%		6.0%			3.1%
FTSE AW Pacific (ex Japan)	2.4%		8.4%		6.0%			3.1%
MSCI Emerging Markets	1.2%		4.2%		3.0%			1.5%
MSCI All Countries Index		100.0%						5.0%
Income yield (4% starting base)				100.0%				10.0%
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							10.0%	10.0%
Performance								
Target (net of fees pa)	+1%	+3%	+1%	+4.25% (cum)	+1%	+0.75%	+0.4%	
Period (rolling years)	5	5-7	5	5	3	3	5	

The 10% of the Fund managed by Capital International under the income yield target is equity dominated (around 80%), of which the majority is UK. Taking this together with other mandates managed against more explicit benchmarks, the result is broadly the desired overall asset allocation of 35% UK equities and 35% 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 seven mandates between differing types and styles of investment manager, with 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 preferred because of the need to see clear evidence of added value as soon as possible. The Committee recognises, however, that three year periods may not be appropriate for particular managers' styles, or for specific asset classes. Five year rolling periods, rather than three year, are therefore adopted in respect of some.

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 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 is sometimes set, however, if it is believed to be in the overall financial interests of the Fund. For investment advisory services, a fee is charged by the hour.

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 operational decision making to the County Treasurer. Day to day decision making on investment activity is delegated to the Fund's investment managers.

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 Capital & Investment Manager and Principal Accountant – Assets and Investments also support the Committee in its investment responsibilities. The Capital & Investments 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 adopted a formal "Forward Plan 2004-06" during 2004. 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 reconsidered its current investment strategy as a result of the actuarial valuation of the Fund as at 31 March 2004. This exercise specifically took account of the makeup of the liabilities of the Fund as at that date, the Fund's solvency and cashflow positions and the desire to reduce investment volatility (ie. risk) to help stabilise employer contributions. An investment strategy was agreed that continued with the principle of a specific strategic benchmark for the Fund. The benchmark reflects these various factors and, in particular, an objective of contributing to the achievement of full solvency for the Fund. It is planned to recover the deficit position over varying periods for different employer groups, with 20 years being set for all the local authority employers (because of the strength of the employer covenant) and 14 years for most other employers.

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 traditional global equity mandates for differing styles of manager totalling 55% of the Fund. In addition to this (and aside from the 20% invested with a bond manager and 10% placed with an indirect property manager), two specialist mandates were added. An allocation of 10% of the Fund was placed in an income based equity dominated product, but which aims to deliver volatility of only around 50% of traditional equities, but with similar performance. To seek to achieve some significant performance advantage to help reduce the deficit, 5% of the Fund was placed in an unconstrained global equity mandate. Whilst this is likely to be more volatile than a traditional mandate, it should not use up more of the Fund's "risk allowance" than was taken off the table by the move to the income based product discussed above. Specific out-performance targets have been set for each specialist investment manager to achieve, against appropriate market indices in most cases.

In arriving at its decisions, the Committee took advice from two independent 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 may be necessary in the future 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 recognises that its overall strategic benchmark may still 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.

The Fund also employs a retained independent pension consultant (an ex-local authority treasurer) to provide advice across the broad range of the Fund's considerations, including investments.

The Fund is prepared to pay other than the lowest tendered fee to ensure that it receives the best quality of advice, as has been the case in the past (the appointment of the consultant for the custody brief and the additional independent advisor for the 2002 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 during 2005-06.*

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 who have investment management experience. Appropriate elements of the Fund benchmark have been included within the mandates for each of the five investment managers. For the income-based product (mentioned at 1 above), an income based target has been set as this is felt to be more appropriate than a market index, which could have been misleading and put perverse incentives into the process.

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 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.

Generally the fee structures for the Fund's mandates are ad-valorum, but for the two recent products (see 1 above) performance related fees have been introduced.

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.