WILTSHIRE COUNTY COUNCIL **AGENDA ITEM NO. 9**

WILTSHIRE PENSION FUND COMMITTEE
6 September 2006

WILTSHIRE PENSION FUND ANNUAL REPORT 2005-06

Purpose of the Report

1. The purpose of this report is to present the draft Wiltshire Pension Fund Annual Report and Financial Statements 2005-06 to Members for approval.

Background

2. The Annual Report contains details of the accounts of the Wiltshire Pension Fund for the year to 31 March 2006 and is primarily aimed at the participating employer organisations within the Wiltshire Pension Fund.

3. 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. As well as reporting the accounts, the opportunity is taken to cover matters of wider interest that affect the Fund, its investments and general pension provision. The Annual Report also includes the Pension Fund 'Statement of Investment Principles'.

Risk Assessment

4. The audit of the Wiltshire Pension Fund is not yet finalised and therefore the Audit Opinion and Certificate had not been issued at the time this report was prepared.

Financial Considerations

5. These are considered in the Annual Report.

Environmental Impact of the Proposals

6. There are none.

Proposals

7. Members are asked to approve the draft Wiltshire Pension Fund Annual Report & Financial Statements 2005-06 for publication, subject to the completion of the audit.

SANDRA SCHOFIELD
Acting County Treasurer

Report Author: David Anthony

Unpublished documents relied upon in the production of this report: NONE

25/2007/WPF/DA

WILTSHIRE PENSION FUND

Annual Report & Financial Statements

2005-06

(DRAFT UNAUDITED)

Wiltshire County Council

THE WILTSHIRE PENSION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS 2005-06

Contents

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 2006. 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 2005-06

Introduction

This is the fifth annual report of the Wiltshire Pension Fund Committee since it was formed in 2001. The Committee's powers in respect of management of the Fund are delegated by the full County Council, which has the responsibility as Administering Authority under the Local Government Pension Scheme (LGPS) regulations.

The Committee had several membership changes following the County Council elections in May 2005 and met for the first time since the election on 5 September 2005, although there had been an induction and training day on 21 July 2005. The Committee agreed a new Members' Training Plan, recognising the need to be up to date and to be appropriately informed in order to make the decisions that serve the Fund most effectively. There was also a full day's training held on 24 March 2006, to cover issues identified in the Training Plan, run with the help of colleagues from Hymans Robertson.

During the later part of the year, the Committee said a grateful farewell to David Phelps of Orders of St John Care Trust, when he retired as the representative for the Admitted Bodies, and welcomed Tim Jackson from Westlea Housing Association in his place.

Several major strands of work have been undertaken during the year, including the implementation of changes to the investment management arrangements and the break-up of the Admitted Bodies Pool. The LGPS regulations were in a state of some change and uncertainty over the year, which exercised Members and officers in responding to proposed changes and consultation. In addition, there has been the more regular work, such as, for example, monitoring investment performance and managers.

New Policies

During the year two new policy statements, required under the LGPS Regulations, have been agreed by the Committee and published on the Fund's website at www.wiltshirepensionfund.org.uk:

- Communications Policy Statement
- Governance Policy Statement

The Committee also agreed a formal policy on the admission of new employers. The Wiltshire Fund will continue to admit transferee admission bodies that result from outsourcing from existing employer bodies, but new admission agreements with community admission bodies will be restricted to those employing more than 10 people, and be subject to a decision of the Committee.

Communications

During the year, the County Treasurer initiated the Pension Liaison Officers' Groups for the benefit of employers with the Fund. Attendance has been good and employers have found the meetings useful. The Treasurer also support employers with roadshows for their employees on relevant issues in relation to the LGPS.

Investment Strategy Review

The investment strategy changes which were approved in February 2005, and explained in detail in the 2004-05 annual report, were successfully implemented in May 2005 at a cost of 0.29% of the funds moved, which is a very good result. The returns over the initial 10 months of the new investments are very positive from both of the new products that the Fund invested in. In 2006-07, the Committee is moving forward with the second phase of the strategy to reduce investment volatility and increase returns.

Investment Performance

The investment performance for the year 2005-06 was a gross return of 25.3%, reflecting principally the recovery in equity markets, because it is the asset allocation decisions that have much more influence on long-term performance than returns from individual managers. This return compares with the consolidated benchmark of 22.7% and the combined managers' targets of around 23.9%. This is an encouraging result, however there is variable performance between different managers and mandates. We continue to monitor managers' activity and consult with them to understand the reasons where there is underperformance.

Compared to other Local Authority funds, this places the Wiltshire Fund 31st out of 87 local authority funds within the WM Local Authority Annual League tables, a little way above the average 25% return for these funds.

As well as focusing on investment returns, we continue to look for opportunities to provide added value for the Fund in smaller ways too, such as the Commission Recapture and Stock Lending programmes and keeping a firm control on all costs. This discipline is demonstrable when, each February, the Committee is asked by the County Treasurer to consider and approve a budget for the costs of running the Fund in the following year. Each May, the actual costs for the past year are reported back and subjected to scrutiny by this Committee.

Health of the Fund

However, 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. For example, the liabilities are also always moving upwards with inflation, and the actuary has already allowed an assumption of future investment returns when determining the funding level.

Although this was not a year in which a formal valuation of the Fund was carried out, officers continue to closely monitor the health of the Fund, using quarterly reporting provided by Hymans Robertson. By March 2006, the funding level had improved to around 86%, compared with 75% at 31 March 2004. This is good in itself, but the improvement would have been a lot greater had it not been for the low levels of long-term bond yields. Bond yields are a key component of the investment return when calculating liabilities and low yields lead to high liabilities. The reason for the low yields is high demand for bonds by corporate pension funds trying to reduce their risk exposure.

Unfortunately, whilst the reduced deficit would imply a reduction in the past service part of the employer's contribution, this is more than compensated for by an increase in the current service rate arising from the low bond yields. Therefore, if employer rates had to be set based on March 2006 figures, they would tend to be slightly higher than those arising from the 2004 valuation.

Update on changes to the Local Government Pension Scheme

There were a number of significant changes to the LGPS in 2005-6. April 2005 saw the introduction of the Government's plan to phase out the 'rule of 85', which allows employees to retire before 65 with unreduced benefits. Even before the changes came into effect, however, with the threat of strike action by the unions in the run-up to the General Election, the Deputy Prime Minister announced his intention to revoke the amendment regulations at the earliest Parliamentary opportunity, which he did in August 2005. At the same time he announced the establishment of a tripartite committee, with representatives from the Local Government Association, the staff side and officials from his own department, to look into the long-term future of the Scheme.

Amendment regulations were introduced in March 2006 with the intention of phasing out the rule of 85 from 1 October 2006, with benefits earned up to that date protected for all members who could achieve the rule before 65 and protection extended to April 2013 for older members. At the same time the Scheme was amended to reflect changes in the tax regime surrounding pensions introduced from 6 April by the Finance Act 2004. Among these changes were:

- The opportunity of a bigger tax-free lump sum by giving up part of annual pension;
- Abolition of the 40-year limit on membership and 15% limit on employee's contributions;
- Introduction of 'flexible retirement', allowing an employee, with employer's consent, to draw pension benefits while continuing to work on reduced hours or a lower grade;
- Replacement of limits on maximum pension and lump sum by 'lifetime allowance' and 'annual allowance' (£1.5m and £215,000 in 2006/7, respectively);
- Abolition of 'earnings cap' (£105,600 in 2005/6) on pensionable pay and employees' contributions for post-31 May 1989 joiners.

From 5 December 2005 the Scheme was amended to provide survivors' benefits for same-sex couples registering their partnership under the Civil Partnership Act, achieving equal treatment with spouses.

Where next for the Local Government Pension Scheme

Looking ahead, further changes are proposed to extend the "Rule of 85" protections to 31 March 2008 for all current members and up to 2016 for older members. At the end of June 2006, the Department for Communities and Local Government issued a consultation document, *'Where next? - Options for a new-look Local Government Pension Scheme*, inviting comments on the possible design of a new scheme from 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 always 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. The Fund also produces literature on many subjects relevant to both employers and scheme members.

Conclusion

The past year has been a very interesting one for the Committee meeting with its new membership and the training programme that followed. In some respects it was a year of consolidation following the valuation and investment strategy changes agreed the year before. Interesting issues lie ahead with the need to move the investment strategy on again, the changes to the LGPS that are emerging, the 2007 valuation now looming on the horizon and so on. This Committee remains committed to achieving the very best for the Wiltshire Pension Fund.

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 2005-06 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 £0.190 million (£0.310 million in 2004-05) into their AVC funds during the year. At the year-end, the value of funds invested on behalf of Scheme members totalled £2.930 million (£2.736 million as at 31 March 2005), made up as follows:

	£ million
Equitable Life Assurance Society	
- With Profits Fund	1.317
- Unit Linked Managed Fund	0.366
- Building Society Fund	0.069
Clerical Medical Funds	
- With Profits Fund	0.123
- Unit Linked Managed Fund	0.734
NPI Funds	
- Managed Fund	0.021
- With Profits Fund	0.182
- Global Care Unit Linked Fund	0.069
- Cash Deposit Fund	0.047

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

2004-05 £000		2005-06 £000
	CONTRIBUTIONS AND BENEFITS	
	Contributions receivable	
13,925	- from employees	14,882
	- from employers	
37,178	• Normal	41,805
5,148	• Additional	6,960
10,604	Transfers in	10,939
66,855	**Total income**	**74,586**
	Benefits payable	
30,413	- Pensions	32,585
4,706	- Retirement grants	5,243
861	- Death benefits	887
	Payments to and on account of leavers	
5,395	- Transfers out	6,866
315	- Contribution refunds	497
665	Administration expenses	895
42,355	**Total expenditure**	**46,973**
24,500	**Net additions from dealings with members**	**27,613**
	RETURN ON INVESTMENTS	
20,043	Investment income	25,073
60,563	Change in market value of investments	183,861
-1,943	Investment expenses	-2,531
78,663	**Net returns on investments**	**206,403**
103,163	**NET INCREASE IN FUND DURING YEAR**	**234,016**
711,198	Opening net assets of the Scheme	814,361
814,361	Closing net assets of the Scheme	1,048,377

(c) Statement of Accounts (continued)

NET ASSET STATEMENT

31.03.05 £000		31.03.06 £000
	INVESTMENT ASSETS	
	Quoted securities	
22,709	- UK Fixed interest Government bonds	26,698
72,937	- UK Fixed Interest Corporate bonds	102,022
24,557	- Overseas fixed interest Government bonds	4,398
16,522	- UK index linked Government bonds	15,101
4,306	- UK index linked Corporate bonds	5,623
6,692	- Overseas index linked Government bonds	28,174
233,601	- UK equities	288,981
130,287	- Overseas equities	245,434
	Managed funds	
93,620	- UK equities	93,939
95,958	- Overseas equities	102,515
80,760	- UK property	90,255
	Cash held on deposit	
18,508	- Sterling Cash	23,467
10,776	- Overseas Cash	18,875
811,233	**Total of investments held**	**1,045,482**
	NET CURRENT ASSETS	
3,730	Sundry Debtors	3,737
-602	Less Sundry Creditors	-842
3,128	**Total net current assets**	**2,895**
814,361		**1,048,377**

(c) Statement of Accounts (continued)

ANALYSIS OF CONTRIBUTIONS RECEIVABLE & BENEFITS PAYABLE

2004-05 £000		2005-06 £000
	CONTRIBUTIONS RECEIVABLE	
	Contributions from employees	
4,595	- Wiltshire County Council	5,164
8,167	- Other scheduled bodies	8,518
1,163	- Admitted bodies	1,200
13,925		**14,882**
	Contributions from employers	
15,836	- Wiltshire County Council	17,353
23,160	- Other scheduled bodies	27,396
3,330	- Admitted bodies	4,016
42,326		**48,765**
56,251	Total contributions receivable	**63,647**
	BENEFITS PAYABLE	
	Pensions payable	
12,988	- Wiltshire County Council	13,592
16,162	- Other scheduled bodies	17,529
1,263	- Admitted bodies	1,464
30,413		**32,585**
	Retirement and Death grants payable	
1,876	- Wiltshire County Council	1,469
3,064	- Other scheduled bodies	4,101
627	- Admitted bodies	560
5,567		**6,130**
35,980	Total benefits payable	**38,715**

(c) Statement of Accounts (continued)

ANALYSIS OF INVESTMENT INCOME

2004-05 £000		2005-06 £000
	Quoted securities	
3,514	- UK fixed interest bonds	3,934
2381	- Overseas fixed interest bonds	2,650
538	- UK index linked bonds	468
83	- Overseas index linked bonds	201
6,896	- UK equities	7,741
2,863	- Overseas equities	3,628
	Managed funds	
217	- UK companies	27
138	- Overseas companies	264
-	- UK fixed interest bonds	74
	- Overseas fixed inerest bonds	77
2,622	- UK property	3,068
	Cash held on deposit	
766	- Sterling Cash	936
25	- Overseas Cash	2,005
20,043		**25,073**

DEBTORS AND CREDITORS

At 31st March 2006, the amounts shown in the accounts comprise:

Debtors and Payments in Advance	**£000**
Contributions due from other authorities and bodies	3,505
Income due from External Managers & Custodians	139
Other	93
	3,737

Creditors and Receipts in Advance	**£000**
Managers/Custody Fees	681
Inland Revenue	26
Contributions in Advance	2
Other	133
	842

(d) Investment Management Notes (as at 31/3/06)

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 31/3/06) are the result of the revised investment strategy agreed by the Wiltshire Pension Fund Committee in February 2005. The new strategy has the dual aims of increasing returns and reducing risk by increasing diversification and alternative approaches. Details of the strategy are provided in the Fund's Statement of Investment Principles in Appendix (e).

The arrangements have been in place since May 2005. The full list of managers is as follows:

Company	Mandate	Share of Fund
Baillie Gifford	Regional Equity	20%
Baillie Gifford	Global Equity (Unconstrained)	5%
Capital International	Regional Equity	20%
Capital International	Absolute Income Grower (Equities/Bonds)	10%
Northern Trust Global	Global Equity "Manager of Managers"	15%
Western Asset Management	Bonds	20%
ING Real Estate	Property	10%

During the year, the managers transacted purchases of £369.2 million and sales of £269.2 million. The value of assets under management at 31 March 2006 was £1,045.5 million, broken down by manager as follows:

Baillie Gifford	£273.1 million
Capital International	£315.8 million
Northern Trust Global	£161.2 million
Western Asset Management	£191.9 million
ING Real Estate	£100.5 million
Cash held by Wiltshire County Council	£ 3.0 million
	£1,045.5 million

Safe custody of all investments is the responsibility of The Northern Trust Company and as such, the investments are registered in the name of, and are held by, its nominee companies or, alternatively, by overseas agents. The exception at 31 March 2006 was a temporary cash deposit of £3.0 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 £102.4 million (10% of the total) were on loan at 31 March 2006. Collateral for these securities is held in a pooled form, the Wiltshire Pension Fund's share (1.97%) representing a value of £109.2 million (106.65%). Income earned from this programme amounted to £0.103 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 £0.041 million in the year.

(e) Analysis of Investments

Held at 31 March 2006

	£000	% of Fund total
Geographical analysis		
United Kingdom	646,178	61.8
Europe	147,342	14.1
North America	153,910	14.7
Japan	46,849	4.5
Asia, ex Japan	27,122	2.6
Other overseas	24,081	2.3
	1,045,482	**100.0**
Sector analysis		
Equities	730,869	69.9
Fixed interest bonds	156,893	15.0
Property	90,255	8.6
Cash	42,343	4.1
Index linked bonds	25,122	2.4
	1,045,482	**100.0**
Analysis by Employer		
Swindon Borough Council	330,173	31.6
Wiltshire County Council	324,707	31.1
Salisbury District Council	66,042	6.3
Wiltshire Police Authority	41,709	4.0
Kennet District Council	40,851	3.9
North Wilts District Council	39,933	3.8
CIPFA	37,706	3.6
West Wilts District Council	35,499	3.4
Wiltshire College	14,600	1.4
Wiltshire Probation Service	13,879	1.3
Westlea Housing Association	11,465	1.1
Thamesdown Passenger Transport	10,911	1.0
Wiltshire Magistrates Court Service	10,538	1.0
Swindon College	10,308	1.0
Town and Parish Councils	8,996	0.9
The Order Of St John Care Trust	8,991	0.9
West Wilts Housing Society	8,123	0.8
Salisbury College	6,282	0.6
Wiltshire & Swindon Fire Authority	5,632	0.5
Sarsen Housing Association	5,558	0.5
Other	5,020	0.5
North Wiltshire Leisure Limited	2,252	0.2
New College	2,231	0.2
Silbury First	1,584	0.2
Cleanaway Ltd	1,057	0.1
Silbury Group	994	0.1
Ridgeway Community	441	0.0
	1,045,482	**100.0**

(e) Analysis of Investments

Held at 31 March 2006

Classification of UK equities	£000	% of Fund total
Financials	101,222	35.0
Cyclical services	51,262	17.7
Resources	46,196	16.0
Non-cyclical consumer goods	37,362	12.9
Non-cyclical services	21,226	7.4
Basic Industries	14,311	5.0
Information technology	8,729	3.0
Utilities	6,615	2.3
General Industries	2,058	0.7
Cyclical consumer goods	0	0.0
	288,981	**100.0**

Twenty largest single equity holdings

Royal Bank of Scotland	16,916	1.6
Vodafone	15,974	1.5
HSBC Holdings	12,396	1.2
Royal Dutch Shell	12,361	1.2
Barclays	11,239	1.1
GlaxoSmithKline	11,186	1.1
BP	8,701	0.8
BHP Billiton	8,640	0.8
BG	8,537	0.8
Rio Tinto	7,947	0.8
Wolseley	7,080	0.7
Astra Zeneca	7,055	0.7
Aviva	6,288	0.6
HBOS	5,519	0.5
British Land	5,333	0.5
Man Group	5,271	0.5
Signet Group	5,225	0.5
Diageo	4,602	0.4
Standard Chartered	4,539	0.4
Lloyds TSB	4,493	0.4
	169,302	**16.2**

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

(f) Investment Performance

The primary performance information for the Fund is 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 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.

This has been a year in which equity and property investments have continued to do very well and the Fund has, for the first time, breached the £1 billion mark.

The Fund's performance is benchmarked against a fund specific benchmark, rather than comparison against the Fund's peer group. The benchmarks are shown in detail in the Statement of Investment Principles in the Appendix (e) at the end of this report. Each managers' performance compared to their individual benchmark and performance target for the past year is shown below.

Manager	**% of Fund @ 31/3/06**	**Actual Investment Performance 2005-06**		
		Gross Target (inc Fees)	**Actual**	**Variation**
Baillie Gifford *(Regional Equities)*	20%	30.7%	31.2%	**+0.5%**
Baillie Gifford - Global Growth Fund *(Unconstrained Global Equities)*	5%	30.1% *(23/5/05 on)*	40.2% *(23/5/05 on)*	**+10.1%**
Capital International *(Regional Equities)*	20%	34.0%	32.0%	**-2.0%**
Capital International - Absolute Income Grower *(Equities & Bonds managed against income target)*	10%	4.7% *(23/5/05 on)*	20.1% *(23/5/05 on)*	**+15.4%**
Northern Trust Global *(Regional Equity)*	15%	32.0%	30.9%	**-1.1%**
Western Asset Management *(Bonds)*	20%	9.4%	8.4%	**-1%**
ING Real Estate *(Property)*	10%	21.5%	22.1%	**+0.6%**
WHOLE FUND	**100%**	**approx 23.9%**	**25.3%**	**+1.4%**

Performance for the year was 25.3%, approximately 1.4% above the Fund's gross target (ie. benchmarks plus out-performance targets plus fees). This is an encouraging result, despite the variable performance between different managers and mandates.

It is worth commenting on the two new products taken on in 2005-06. The Absolute Income Grower (which is equity dominated and managed for income yield rather than capital growth) will show high volatility relative to its benchmark of RPI + 3%, but nevertheless, this is a good return for this period. The Global Growth Fund will also show high volatility compared to its "All World Index" benchmark because it invests in a small number of high conviction stocks, but nevertheless, this is an exceptional start to the new mandate.

Using further data provided by the WM Company, the Wiltshire Fund shows investment returns of 25.3% for 2005-06 compared with the median for the 87 local authorities funds in the Local Authority Fiscal League Tables of 25.0%. The best and worst returns for this group were 29.1% and 5.9%.

However, without meaning to detract from what has undoubtedly been a good year, with an overall increase in the value of the Fund of nearly 29% from investment performance and new money, it worth just noting that liabilities have increased by nearly 14% over the same period, principally due to low bond yields, so the Funding Level will not have improved as far as some might expect. At 31 March 2006 it stood at 86%.

(g) Scheme Membership

	Contributing employees		Current pensioners		Deferred pensioners	
	at 31.03.05	**at 31.03.06**	**at 31.03.05**	**at 31.03.06**	**at 31.03.05**	**at 31.03.06**
County Council	8,170	8,713	4,013	4,096	4,278	5,138
Swindon Borough	5,481	5,652	1,754	1,836	2,151	2,652
District Councils						
Kennet	365	378	264	265	154	182
North Wilts	358	359	321	321	224	241
Salisbury	606	584	420	435	237	281
West Wilts	273	273	344	350	288	306
Police Authority	866	911	156	185	193	235
Fire Authority	103	114	17	18	18	20
Probation	150	146	93	95	58	60
Magistrates Courts	125	0	73	78	64	174
FE Colleges	975	940	203	226	430	560
Other bodies	1,110	1,116	455	504	568	640
Total	**18,582**	**19,186**	**8,113**	**8,409**	**8,663**	**10,489**

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

	2004-05 £000	2005-06 £000
Wiltshire County Council Finance Department charges		
Pension benefit administration	355	553
Pension payroll administration	145	151
Pension investment & accounting administration	79	102
Sub total	**579**	**806**
Direct administration costs		
Pension administration	144	173
Investment & accounting administration	5	6
"Bad advice" costs recouped	-4	-3
Sub total	**145**	**176**
Third party investment management charges		
Investment managers' fees	1,746	2,316
Custody	34	47
Consultancy fees	103	81
Sub total	**1,883**	**2,444**
Overall total	**2,607**	**3,426**

Statistics

Total costs per scheme member	*£73.73*	*£89.96*
Scheme administration costs per scheme member	*£18.10*	*£22.95*
Scheme administration staff numbers (FTE)	*11.3*	*13.3*
Scheme members per 1 staff FTE	*3,129*	*2,863*
Investment administration costs as % of market value	*0.24%*	*0.24%*

Comments on variations in expenditure between years

The increased costs in pension benefit administration results from the need to improve the quality of data held, which was highlighted during the 2004 valuation. This required additional staff to work with employers on providing more information electronically, reviewing exiting records, and extending the use of software to improve procedures and meet legislative targets. Also included are the costs related to the implementation of the communications strategy and website review.

Increased investment management costs (+33%) result from increased fees linked to the improved market values from the strong recovery in the stock market over the last twelve months. However, investment administration costs remain at 0.24% of the total assets.

Report of the Actuary - Hymans Robertson

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, the last 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 1998 and contribute at the rate of 5% of pensionable pay;

- Contributions, for the three years commencing 1 April 2005, by the employers as specified in our revised Rates and Adjustments certificate dated 31 March 2006.

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 these documents are available on request from the Finance 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 will 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.

Valuation of Assets

A “market related” valuation method has been used. However, in the 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.

Valuation assumptions

The key financial assumptions adopted at the 2004 valuation are set out in the table below:

Financial Assumptions	Mar 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.

Forthcoming actuarial valuation

The next valuation of the Fund will be carried out as at 31 March 2007 and the results known later that year. This valuation will allow for the experience of the fund since 31 March 2004 and up-to-date financial assumptions at that time.

I am aware that some employers may pay contributions in excess of the minimum contributions shown in the Rates and Adjustment 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.

Prepared by:

Peter Summers FFA
For and on behalf of Hymans Robertson LLP
9 June 2006

Appendices

(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
Wanborough 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
Swindon Dance
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 2006

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 protected against inflation by being linked to increases in the Retail Price Index (RPI).
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	If a member has more than 3 months' service or has transferred previous pension rights into the Scheme, inflation-proofed deferred benefits or a transfer of pension rights are available. If a member has less than 3 months' service and has not transferred any previous rights into the Scheme, a refund of contributions or a transfer of pension rights are available.
Ill Health Retirement	With over five years' service, an enhanced pension and tax free lump sum are immediately available. With 3 months' to five years' service, an unenhanced pension and lump sum are available.
Death in Service	A cash lump sum of two years' pay payable to dependants. Spouses', civil partners' 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).

Guide to the Local Government Pension Scheme

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

Employers' Guide

This is a loose-leaf format publication specifically aimed at staff within employer bodies with responsibility for providing information to the Pensions Section in respect of Scheme administration. This will include details of employees 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 information

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 Patrick Coleman
Mr Ross Henning
Mr John Noeken
Miss Fleur de Rhe-Philipe (Vice Chairman)
Mr Kevin Wren (Chairman)

Swindon Borough Council Members

Mr Des Moffatt
Mr Peter Stoddart

District Council Member

Mr John Brady - Salisbury District Council

Employee Observers

Vacant – Wiltshire County Council
Vacant – Swindon Borough Council

Admitted Bodies

Mr Tim Jackson – Westlea Housing Association

(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
Peter Summers, Hymans Robertson

(e) Investment Consultant

George Henshilwood, Hymans Robertson
Vince McEntegart, Hymans Robertson
Keith Neale, an Independent Pensions Advisor

(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 now been refined a number of times and the latest version is fully updated to take account of the revisions to the Investment Strategy implemented in 2005-06. The SIP gives a comprehensive description of the thinking behind the way in which the investments of the Fund are managed.included in the four previous annual reports.

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:

Sandra Schofield
Acting 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.